

COMPLIANCE AUDIT

Indiana Borough Non-Uniformed Management Pension Plan

Indiana County, Pennsylvania

For the Period

January 1, 2011 to December 31, 2013

September 2014



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Indiana Borough
Indiana County
Indiana, PA 15701

We have conducted a compliance audit of the Indiana Borough Non-Uniformed Management Pension Plan for the period January 1, 2011 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

Indiana Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Indiana Borough Non-Uniformed Management Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our tests indicated that, in all significant respects, the Indiana Borough Non-Uniformed Management Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the defined benefit information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Indiana Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



EUGENE A. DEPASQUALE
Auditor General

August 19, 2014

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Indiana Borough Non-Uniformed Management Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Indiana Borough Non-Uniformed Management Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 2005-08, as amended. The plan provides defined benefit and defined contribution options for its members. Borough non-uniformed management employees hired prior to January 1, 2005 participate in the plan's defined benefit option. Borough non-uniformed management employees hired subsequent to January 1, 2005 are mandated to participate in the plan's defined contribution option. The plan was established January 1, 1976. Active members participating in the defined benefit option are required to contribute 5 percent of compensation to the plan. Active members participating in the defined contribution option are required to contribute 2 percent of compensation to the plan. The municipality is required to contribute 8 percent of each defined contribution option member's compensation. As of December 31, 2013, the plan had 8 active members, 2 terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions for members participating in the defined benefit option are as follows:

Eligibility Requirements:

Normal Retirement	Hired before January 1, 2000 - Age 50 and 20 years of service. Hired after December 31, 1999 - Age 65 and 10 years of service. Hired on or after January 1, 2005 - Age 65.
Early Retirement	Age 55 and 15 years of service.
Vesting	A member is 100% vested after 5 years of service.

Retirement Benefit:

Benefit is 50% of average compensation less 25% of Social Security benefit. Social Security benefit offset deferred until Social Security Retirement Age.

Survivor Benefit:

Before Retirement Eligibility	Accrued benefit reduced for early retirement and 50% joint and survivor annuity with ½ payable to surviving spouse. Surviving spouse may opt out of this pre-retirement survivor annuity by accepting refund of accumulated employee contributions with interest. Beneficiary of non-married participant entitled to only refund of accumulated employee contributions with interest.
After Retirement Eligibility	Survivor option at retirement.

Service Related Disability Benefit:

Accrued benefit as of date of disability deferred to Normal Retirement Age.

Non-Service Related Disability Benefit:

Accrued benefit as of date of disability deferred to Normal Retirement Age.

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS
 DEFINED BENEFIT OPTION

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2009, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	\$ 1,356,906	\$ 1,923,943	\$ 567,037	70.5%	\$ 429,789	131.9%
01-01-11	1,601,858	2,232,918	631,060	71.7%	397,458	158.8%
01-01-13	1,824,408	2,461,971	637,563	74.1%	432,353	147.5%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. The market values of the plan's assets at 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

DEFINED BENEFIT OPTION

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

DEFINED BENEFIT OPTION

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 159,416	100.0%
2009	155,274	100.0%
2010	160,242	100.0%
2011	143,170	103.2%
2012	150,391	100.0%
2013	181,230	100.0%

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

DEFINED BENEFIT OPTION

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	2.75%

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
SUPPLEMENTARY INFORMATION

SUMMARY OF DEPOSITED STATE AID
AND EMPLOYER CONTRIBUTIONS

DEFINED CONTRIBUTION OPTION

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 6,372	\$ 2,309
2009	3,128	3,522
2010	3,235	2,353
2011	2,800	None
2012	None	4,932
2013	None	None

INDIANA BOROUGH NON-UNIFORMED MANAGEMENT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Indiana Borough Non-Uniformed Management Pension Plan
Indiana County
80 North 8th Street
Indiana, PA 15701

The Honorable George E. Hood	Mayor
Ms. Nancy Jones	Council President
Mr. William Sutton	Acting Borough Manager
Ms. Nicole Sipos	Assistant Borough Treasurer

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