

# COMPLIANCE AUDIT

---

## Chambersburg Borough Firemen's Pension Plan Franklin County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

---

February 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Chambersburg Borough  
Franklin County  
Chambersburg, PA 17201

We have conducted a compliance audit of the Chambersburg Borough Firemen's Pension Plan for the period January 1, 2015 to December 31, 2018. We also evaluated compliance with some requirements subsequent to that period when possible. 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. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

Chambersburg 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 Chambersburg Borough Firemen's 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 and as previously described, 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 procedures indicated that, in all significant respects, the Chambersburg Borough Firemen's 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 information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Chambersburg 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.

February 12, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information .....	3
Report Distribution List .....	9

## 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 Chambersburg Borough Firemen's Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

The Chambersburg Borough Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2009-3, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its firefighters. The plan was established July 1, 1960. Active members were required to contribute 4 percent of compensation for the year 2015, and 5 percent of compensation to the plan for the years 2016, 2017, and 2018. As of December 31, 2018, the plan had 27 active members, no terminated members eligible for vested benefits in the future, and 14 retirees receiving pension benefits from the plan.

## **BACKGROUND - (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

### Retirement Benefit:

Lifetime monthly pension benefit with 120 months guaranteed of 50% of average monthly compensation based on highest 3 years of earnings, plus a service increment of \$100 per month for members who complete 26 or more years of benefit service.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Disability Benefit:

None

CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 183,801	\$ 177,557	\$ 186,435	\$ 210,445	\$ 220,967
Interest	505,051	525,937	561,371	607,259	652,898
Change of benefit terms	-	-	-	76,888	-
Difference between expected and actual experience	-	(56,915)	-	(274,630)	-
Changes of assumptions	-	(75,778)	-	249,908	-
Benefit payments, including refunds of member contributions	(290,995)	(286,689)	(252,187)	(248,583)	(266,906)
Net Change in Total Pension Liability	<u>397,857</u>	<u>284,112</u>	<u>495,619</u>	<u>621,287</u>	<u>606,959</u>
Total Pension Liability - Beginning	<u>6,274,830</u>	<u>6,672,687</u>	<u>6,956,799</u>	<u>7,452,418</u>	<u>8,073,705</u>
Total Pension Liability - Ending (a)	<u><u>\$ 6,672,687</u></u>	<u><u>\$ 6,956,799</u></u>	<u><u>\$ 7,452,418</u></u>	<u><u>\$ 8,073,705</u></u>	<u><u>\$ 8,680,664</u></u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 269,702	\$ 299,092	\$ 286,496	\$ 289,652	\$ 296,801
Contributions - member	62,106	62,716	81,310	88,617	111,255
Net investment income	270,869	(101,931)	462,584	718,183	(428,422)
Benefit payments, including refunds of member contributions	(290,995)	(286,689)	(252,187)	(248,583)	(266,906)
Administrative expense	(4,800)	(6,500)	(4,600)	(3,241)	(11,800)
Net Change in Plan Fiduciary Net Position	<u>306,882</u>	<u>(33,312)</u>	<u>573,603</u>	<u>844,628</u>	<u>(299,072)</u>
Plan Fiduciary Net Position - Beginning	<u>4,782,570</u>	<u>5,089,452</u>	<u>5,056,140</u>	<u>5,629,743</u>	<u>6,474,371</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 5,089,452</u></u>	<u><u>\$ 5,056,140</u></u>	<u><u>\$ 5,629,743</u></u>	<u><u>\$ 6,474,371</u></u>	<u><u>\$ 6,175,299</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 1,583,235</u></u>	<u><u>\$ 1,900,659</u></u>	<u><u>\$ 1,822,675</u></u>	<u><u>\$ 1,599,334</u></u>	<u><u>\$ 2,505,365</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.27%	72.68%	75.54%	80.19%	71.14%
Estimated Covered Employee Payroll	\$ 1,464,554	\$ 1,577,331	\$ 1,642,257	\$ 1,875,428	\$ 2,340,947
Net Pension Liability as a Percentage of Covered Employee Payroll	108.10%	120.50%	110.99%	85.28%	107.02%



CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the borough as of December 31, 2014, 2015, 2016, 2017, and 2018, calculated using the discount rate of 8.0%, as well as what the borough's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability - 12/31/2014	\$ 2,431,228	\$ 1,583,235	\$ 865,701
Net Pension Liability - 12/31/2015	\$ 2,765,299	\$ 1,900,659	\$ 1,167,893
Net Pension Liability - 12/31/2016	\$ 2,731,159	\$ 1,822,675	\$ 1,051,796
Net Pension Liability - 12/31/2017	\$ 2,614,906	\$ 1,599,334	\$ 742,233
Net Pension Liability - 12/31/2018	\$ 3,574,471	\$ 2,505,365	\$ 1,602,144

CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll *	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 124,682	\$ 124,682	\$ -		
2010	116,340	116,340	-	\$1,330,676	8.74%
2011	204,343	204,343	-		
2012	209,739	209,739	-	1,414,222	14.83%
2013	244,149	244,149	-		
2014	269,702	269,702	-	1,464,554	18.42%
2015	299,092	299,092	-	1,577,331	18.96%
2016	286,496	286,496	-	1,642,257	17.45%
2017	289,652	289,652	-	1,875,428	15.44%
2018	296,801	296,801	-	2,340,947	12.68%

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(6.3%)
2017	13.1%
2016	9.6%
2015	(1.0%)
2014	5.9%

CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

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, 2013, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-13	\$ 4,542,705	\$ 5,905,610	\$ 1,362,905	76.9%
01-01-15	5,257,563	6,539,994	1,282,431	80.4%
01-01-17	6,185,492	7,504,584	1,319,092	82.4%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 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. This method 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.

CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

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.

CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	If retired on or after 1/1/2008, an annual cost of living adjustment (COLA) will be equal to the increase in CPI for the preceding calendar year, with a maximum total COLA increase of 30% and pension benefit of 75% of salary.

CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Walter C. Bietsch**  
Mayor

**Ms. Alice C. Elia**  
Council President

**Mr. Michael Herbert**  
Council Vice President

**Ms. Barbara Beattie**  
Council Member

**Ms. Kathy Leedy**  
Council Member

**Ms. Sharon A. Bigler**  
Council Member

**Mr. Muhammad Amer Chaudhry**  
Council Member

**Mr. Bill Everly, Jr.**  
Council Member

**Mr. Heath E. Talhelm**  
Council Member

**Mr. Allen B. Coffman**  
Council Member

CHAMBERSBURG BOROUGH FIREMEN'S PENSION PLAN  
REPORT DISTRIBUTION LIST

**Mr. John N. Huber**  
Council Member

**Mr. Jeffrey Stonehill**  
Borough Manager

**Mr. Jason Cohen**  
Finance Director/Treasurer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).