

COMPLIANCE AUDIT

Chambersburg Borough Non-Uniformed 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



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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 Non-Uniformed 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and 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. Employer contributions that were deposited under the defined contribution features of the plan for the years ended December 31, 2016 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 whether retirement benefits calculated for 7 of the 11 plan members¹ who retired during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for 1 of the 9 plan members² who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether retirement benefits calculated for all 3 plan members who terminated employment and/or retired and elected a lump-sum form of pension benefit during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.

¹ We selected plan members randomly from the population of plan members who retired during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

² We selected plan members randomly from the population of plan members who elected to vest during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

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 Non-Uniformed 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 Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 19, 2020



EUGENE A. DEPASQUALE
Auditor General

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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 Chambersburg Borough Non-Uniformed 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.

The Chambersburg Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 2009-5, as amended. The plan was established July 1, 1960. Effective January 1, 2016, the plan was amended to include defined contribution features to the plan for employees who elect to participate. Once a participant elects to participate under the defined contribution provisions, the election is irrevocable. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. Active members of the defined benefit provisions were required to contribute 4 percent of compensation for the year 2015, 4.75 percent of compensation for the year 2016, 5.5 percent of compensation for the year 2017, and 6 percent of compensation to the plan for the year 2018 and continuing thereafter. Active members participating under the defined contribution provisions are not required to contribute to the plan while the municipality is required to contribute \$3,400 per year for full-time employees, and \$1,700 per year for part-time employees. As of December 31, 2018, the borough's non-uniformed pension plan had 153 active members, 13 terminated members eligible for vested benefits in the future, and 90 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 65
Early Retirement	Age 60 and 10 years of service.
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 1.5% of average monthly compensation based on high 3 years of last 5 years of service times service time accrued up to 35 years.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	If married and completed 10 years of service, a monthly benefit equal to 50% of the pension accrued at time of death and then reduced by 0.5% for each year, if any, by which the spouse is more than 5 years younger than the member.

Disability Benefit:

Member is credited for years of service during period of total and permanent disability for purposes of calculating their retirement benefit at retirement.

CHAMBERSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify 2 eligible police officers (4 units) and understated payroll by \$47,275 on the Certification Form AG 385 filed in 2016. The borough also failed to certify an eligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2017, 2018, and 2019. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials were unaware that the non-uniformed employee, who is on long-term disability as an active, participating plan member and receiving service credit while on disability status, and the 2 police officers, newly employed by the borough during 2015, satisfied the requirements for consideration for certification on the AG 385 based on their employment status and/or date of hire. Moreover, internal control procedures, such as having at least two people review the data certified, were not evident to ensure compliance with the instructions that accompany Certification Form AG 385 in accurately reporting the required pension data.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough's state aid allocations were based on unit value, the borough received an underpayment of state aid of \$31,893 as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2016	Police	4	\$ 4,375	\$ 17,500
2017	Non-Uniformed	1	4,588	4,588
2018	Non-Uniformed	1	4,685	4,685
2019	Non-Uniformed	1	5,120	<u>5,120</u>
Total Underpayment of State Aid				<u><u>\$ 31,893</u></u>

CHAMBERSBURG BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification errors, the full amount of the 2016, 2017, 2018, and 2019 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials implement adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

CHAMBERSBURG BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 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	\$ 551,672	\$ 571,290	\$ 599,855	\$ 673,049	\$ 706,701
Interest	1,836,430	1,918,151	2,003,723	2,130,605	2,236,377
Difference between expected and actual experience	-	58,932	-	(950,893)	-
Changes of assumptions	-	-	-	1,338,876	-
Benefit payments, including refunds of member contributions	(1,450,430)	(1,439,849)	(1,456,871)	(1,498,326)	(1,534,429)
Net Change in Total Pension Liability	937,672	1,108,524	1,146,707	1,693,401	1,408,649
Total Pension Liability - Beginning	23,128,917	24,066,589	25,175,113	26,321,820	28,015,221
Total Pension Liability - Ending (a)	<u>\$ 24,066,589</u>	<u>\$ 25,175,113</u>	<u>\$ 26,321,820</u>	<u>\$ 28,015,221</u>	<u>\$ 29,423,870</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 640,380	\$ 699,463	\$ 727,254	\$ 641,491	\$ 588,100
Contributions - member	246,550	358,759	395,820	490,416	544,244
Net investment income	994,073	(360,956)	1,660,559	2,478,738	(1,363,327)
Benefit payments, including refunds of member contributions	(1,450,430)	(1,439,849)	(1,456,871)	(1,498,326)	(1,534,429)
Administrative expense	(6,000)	(11,500)	(34,206)	-	(24,200)
Net Change in Plan Fiduciary Net Position	424,573	(754,083)	1,292,556	2,112,319	(1,789,612)
Plan Fiduciary Net Position - Beginning	18,570,186	18,994,759	18,240,676	19,533,232	21,645,551
Plan Fiduciary Net Position - Ending (b)	<u>\$ 18,994,759</u>	<u>\$ 18,240,676</u>	<u>\$ 19,533,232</u>	<u>\$ 21,645,551</u>	<u>\$ 19,855,939</u>
Net Pension Liability - Ending (a-b)	<u>\$ 5,071,830</u>	<u>\$ 6,934,437</u>	<u>\$ 6,788,588</u>	<u>\$ 6,369,670</u>	<u>\$ 9,567,931</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.93%	72.46%	74.21%	77.26%	67.48%
Estimated Covered Employee Payroll	\$ 8,505,696	\$ 9,251,503	\$ 8,975,023	\$ 8,932,704	\$ 9,329,734
Net Pension Liability as a Percentage of Covered Employee Payroll	59.63%	74.95%	75.64%	71.31%	102.55%

CHAMBERSBURG BOROUGH NON-UNIFORMED 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	\$ 7,726,612	\$ 5,071,830	\$ 2,778,615
Net Pension Liability - 12/31/2015	\$ 9,676,150	\$ 6,934,437	\$ 4,562,540
Net Pension Liability - 12/31/2016	\$ 9,636,477	\$ 6,788,588	\$ 4,321,720
Net Pension Liability - 12/31/2017	\$ 9,484,755	\$ 6,369,670	\$ 3,680,497
Net Pension Liability - 12/31/2018	\$ 12,815,153	\$ 9,567,931	\$ 6,761,387

CHAMBERSBURG BOROUGH NON-UNIFORMED 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	\$ 454,029	\$ 454,029	\$ -		N/A
2010	472,936	472,936	-	\$7,587,865	6.23%
2011	648,163	759,192	(111,029)		N/A
2012	650,683	650,683	-	7,504,401	8.67%
2013	789,962	789,962	-		N/A
2014	640,380	640,380	-	8,505,696	7.53%
2015	699,463	699,463	-	9,251,503	7.56%
2016	727,254	727,254	-	8,975,023	8.10%
2017	641,491	641,491	-	8,932,704	7.18%
2018	588,100	588,100	-	9,329,734	6.30%

* 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	9.4%
2015	(1.9%)
2014	5.7%

CHAMBERSBURG BOROUGH NON-UNIFORMED 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	\$ 18,369,432	\$ 22,248,614	\$ 3,879,182	82.6%
01-01-15	19,777,877	24,125,521	4,347,644	82.0%
01-01-17	21,761,855	26,709,803	4,947,948	81.5%

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 NON-UNIFORMED 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 NON-UNIFORMED 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	13 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	None assumed

CHAMBERSBURG BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	None	\$ 6,800
2017	None	49,300
2018	None	51,567

Note: Effective January 1, 2016, the plan was amended to include defined contribution features. The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

CHAMBERSBURG BOROUGH NON-UNIFORMED PENSION PLAN
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