

COMPLIANCE AUDIT

Chambersburg Borough Police 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 Police 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.

- 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 all 9 plan members who retired 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 recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the 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.

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 Police 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 Police 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 18, 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 Police 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Chambersburg Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2009-4, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established August 1, 1968. Active members were required to contribute 4 percent of compensation to the plan. As of December 31, 2018, the plan had 33 active members, 1 terminated member eligible for vested benefits in the future, and 32 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	Eligible with 20 years of service.
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$100 per month for members who complete 26 or more years of 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.

Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

CHAMBERSBURG BOROUGH POLICE 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 Forms 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. In addition, 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 POLICE 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 POLICE 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	\$ 338,256	\$ 346,120	\$ 363,426	\$ 343,594	\$ 360,774
Interest	1,042,000	1,077,560	1,134,506	1,224,345	1,275,351
Difference between expected and actual experience	-	(153,499)	-	15,785	-
Changes of assumptions	-	(161,076)	-	472,617	-
Benefit payments, including refunds of member contributions	(567,680)	(695,818)	(762,502)	(924,511)	(970,587)
Net Change in Total Pension Liability	812,776	413,287	735,430	1,131,830	665,538
Total Pension Liability - Beginning	12,973,082	13,785,858	14,199,145	14,934,575	16,066,405
Total Pension Liability - Ending (a)	<u>\$ 13,785,858</u>	<u>\$ 14,199,145</u>	<u>\$ 14,934,575</u>	<u>\$ 16,066,405</u>	<u>\$ 16,731,943</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 399,615	\$ 498,970	\$ 509,013	\$ 505,579	\$ 514,380
Contributions - member	66,471	141,981	103,248	94,940	105,082
Net investment income	609,935	(212,275)	1,011,059	1,518,697	(827,347)
Benefit payments, including refunds of member contributions	(567,680)	(695,818)	(762,502)	(924,511)	(970,587)
Administrative expense	(6,600)	(8,900)	(8,200)	-	(15,400)
Net Change in Plan Fiduciary Net Position	501,741	(276,042)	852,618	1,194,705	(1,193,872)
Plan Fiduciary Net Position - Beginning	10,980,644	11,482,385	11,206,343	12,058,961	13,253,666
Plan Fiduciary Net Position - Ending (b)	<u>\$ 11,482,385</u>	<u>\$ 11,206,343</u>	<u>\$ 12,058,961</u>	<u>\$ 13,253,666</u>	<u>\$ 12,059,794</u>
Net Pension Liability - Ending (a-b)	<u>\$ 2,303,473</u>	<u>\$ 2,992,802</u>	<u>\$ 2,875,614</u>	<u>\$ 2,812,739</u>	<u>\$ 4,672,149</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.29%	78.92%	80.75%	82.49%	72.08%
Estimated Covered Employee Payroll	\$ 2,200,081	\$ 2,266,039	\$ 2,384,793	\$ 2,288,652	\$ 2,318,880
Net Pension Liability as a Percentage of Covered Employee Payroll	104.70%	132.07%	120.58%	122.90%	201.48%

CHAMBERSBURG BOROUGH POLICE 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	\$ 3,937,310	\$ 2,303,473	\$ 923,437
Net Pension Liability - 12/31/2015	\$ 4,681,629	\$ 2,992,802	\$ 1,568,459
Net Pension Liability - 12/31/2016	\$ 4,637,977	\$ 2,875,614	\$ 1,388,049
Net Pension Liability - 12/31/2017	\$ 4,711,588	\$ 2,812,739	\$ 1,216,907
Net Pension Liability - 12/31/2018	\$ 6,645,894	\$ 4,672,149	\$ 3,012,456

CHAMBERSBURG BOROUGH POLICE 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	\$ 466,941	\$ 466,941	\$ -		N/A
2010	490,641	490,641	-	\$1,918,058	25.58%
2011	474,748	474,748	-		N/A
2012	454,682	454,682	-	1,936,497	23.48%
2013	420,753	420,753	-		N/A
2014	399,615	399,615	-	2,200,081	18.16%
2015	498,970	498,970	-	2,266,039	22.02%
2016	509,013	509,013	-	2,384,793	21.34%
2017	505,579	505,579	-	2,288,652	22.09%
2018	514,380	514,380	-	2,318,880	22.18%

* 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	9.3%
2015	(1.9%)
2014	5.8%

CHAMBERSBURG BOROUGH POLICE 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	\$ 10,328,269	\$ 12,181,761	\$ 1,853,492	84.8%
01-01-15	11,643,335	13,471,283	1,827,948	86.4%
01-01-17	13,055,555	15,422,977	2,367,422	84.7%

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 POLICE 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 POLICE 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 1/1/2000, equal to the increase in the Consumer Price Index for the preceding calendar year, with a maximum total increase of 30% and pension benefit of 75% of salary.

CHAMBERSBURG BOROUGH POLICE PENSION PLAN
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This report was initially distributed to the following:

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