

# LIMITED PROCEDURES ENGAGEMENT

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## Delmont Borough Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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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  
Delmont Borough  
Westmoreland County  
Delmont, PA 15626

We conducted a Limited Procedures Engagement (LPE) of the Delmont Borough Police Pension Plan for the period January 1, 2017 to December 31, 2018 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether the January 1, 2017 actuarial valuation reports was prepared and submitted by in accordance with Act 205 and whether selected information provided on this report 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Delmont Borough Police Pension Plan was not being 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

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

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 Delmont Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

February 6, 2020

  
EUGENE A. DEPASQUALE  
Auditor General

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DELMONT 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 an eligible police officer and understated payroll by \$22,232 on the Certification Form AG 385 filed in 2018. The data contained on this certification form 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 failed to establish adequate internal control procedures such as having appropriate supervisory overview of the data certified to ensure compliance with the instructions that accompany Certification Form AG 385 and to assist in accurately reporting the pension data.

Effect: The data submitted on this certification form 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 allocation was based on pension costs, the borough received an underpayment of state aid as identified below:

Year	Normal Cost	Payroll Understated	State Aid (Underpayment)
2018	16.25%	\$ 22,232	\$ 3,613

Although the borough will be reimbursed for the underpayment of state aid due to the borough’s certification error, the full amount of the 2018 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish 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 agree with the finding without exception

Auditor’s Conclusion: Compliance will be subject to verification during our next plan engagement.

DELMONT BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 2 through 4 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	\$ 29,558	\$ 27,543	\$ 18,639	\$ 33,930	\$ 44,036
Interest(includes interest on service cost)	53,618	49,247	49,226	50,356	52,494
Change of benefit terms	-	-	-	-	12,096
Difference between expected and actual experience	(126,077)	-	6,173	-	71,831
Changes of assumptions	-	(26,242)	28,349	-	-
Benefit payments, including refunds of member contributions	(38,160)	(30,862)	(53,504)	(53,504)	(53,867)
Net Change in Total Pension Liability	(81,061)	19,686	48,883	30,782	126,590
Total Pension Liability - Beginning	964,142	883,081	902,767	951,650	982,432
Total Pension Liability - Ending (a)	<u>\$ 883,081</u>	<u>\$ 902,767</u>	<u>\$ 951,650</u>	<u>\$ 982,432</u>	<u>\$ 1,109,022</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 24,236	\$ 21,350	\$ 19,284	\$ 6,354	\$ 23,911
Contributions - PMRS assessment	-	-	20	60	-
PMRS investment income	57,627	59,060	51,234	59,764	60,453
Market value investment income	(26,398)	(56,723)	31,241	132,210	(109,394)
Benefit payments, including refunds of member contributions	(38,160)	(30,862)	(53,504)	(53,504)	(53,867)
PMRS Administrative expense	(100)	(80)	(80)	(80)	(120)
Additional administrative expense	(2,210)	(2,462)	(2,510)	(2,748)	(2,698)
Net Change in Plan Fiduciary Net Position	14,995	(9,717)	45,685	142,056	(81,715)
Plan Fiduciary Net Position - Beginning	1,055,096	1,070,091	1,060,374	1,106,059	1,248,115
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,070,091</u>	<u>\$ 1,060,374</u>	<u>\$ 1,106,059</u>	<u>\$ 1,248,115</u>	<u>\$ 1,166,400</u>
Net Pension Liability - Ending (a-b)	<u>\$ (187,010)</u>	<u>\$ (157,607)</u>	<u>\$ (154,409)</u>	<u>\$ (265,683)</u>	<u>\$ (57,378)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	121.18%	117.46%	116.23%	127.04%	105.17%
Estimated Covered Employee Payroll	\$ 144,973	\$ 143,192	\$ 125,992	\$ 212,203	\$ 275,412
Net Pension Liability as a Percentage of Covered Employee Payroll	(129.00%)	(110.07%)	(122.55%)	(125.20%)	(20.83%)

DELMONT 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 and 2015, calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ (80,919)	\$ (187,010)	\$ (275,971)
Net Pension Liability - 12/31/15	\$ (46,656)	\$ (157,607)	\$ (249,906)

In addition, the following presents the net pension liability of the borough as of December 31, 2016, 2017 and 2018, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ (26,582)	\$ (154,409)	\$ (260,337)
Net Pension Liability - 12/31/17	\$ (133,721)	\$ (265,683)	\$ (375,037)
Net Pension Liability - 12/31/18	\$ 103,863	\$ (57,378)	\$ (189,879)

DELMONT 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
2014	\$ 23,530	\$ 24,236	\$ (706)	\$ 144,973	16.72%
2015	18,370	21,350	(2,980)	143,192	14.91%
2016	19,284	19,304	(20)	125,992	15.32%
2017	6,355	6,414	(59)	212,203	3.02%
2018	23,911	23,911	-	275,412	8.68%



DELMONT 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	\$ 1,004,487	\$ 910,092	\$ (94,395)	110.4%
01-01-15	1,091,614	883,081	(208,533)	123.6%
01-01-17	1,195,066	951,650	(243,416)	125.6%

DELMONT 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.

DELMONT 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	N/A
Remaining amortization period	N/A
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

DELMONT BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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