

LIMITED PROCEDURES ENGAGEMENT

Coaldale Borough Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

February 2019



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
Coaldale Borough
Schuylkill County
Coaldale, PA 18218

We conducted a Limited Procedures Engagement (LPE) of the Coaldale Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017 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 municipal officials took appropriate corrective action to address the findings contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether retirement benefits calculated for plan members who retired during the engagement 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Coaldale 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 – Noncompliance With Prior Audit Recommendation – Unauthorized
Provision For A Killed In Service Benefit

The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

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 Coaldale 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.

January 31, 2019

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

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COALDALE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Coaldale Borough has complied with the prior audit report recommendation concerning the following:

- Failure To Deposit The Full Amount Of State Aid Into The Police Pension Plan

The borough deposited the remaining outstanding state aid into the police pension plan during the current period as recommended.

Noncompliance With Prior Audit Recommendation

Coaldale Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Unauthorized Provision For A Killed In Service Benefit

COALDALE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For
A Killed In Service Benefit**

Condition: As disclosed in our prior audit report, Coaldale Borough maintains a police pension plan governed by the provisions of Act 600, as amended. Prior to the adoption of Act 51 of 2009, Act 600 contained a mandatory killed in service benefit provision; however, Act 51 specifically repealed the section of Act 600 that referenced the mandatory killed in service benefit. During the prior audit period, a finding was issued to plan officials notifying them of the passage of Act 51. It was recommended that plan officials review the Act’s implications for the police pension plan with their municipal solicitor. However, during the current period, it has been determined that the pension plan’s governing document continues to provide for a killed in service benefit that is no longer authorized by Act 600.

Section 4.5 (c) of Ordinance No. 2004-4 states, in part:

The beneficiaries of a police officer who dies due to injuries incurred while performing the duties of his/her employment shall be entitled to receive a killed in service death benefit equal to one hundred percent (100%) of the police officer’s monthly average compensation as of the date of death.

Criteria: Section 1(a) of Act 51 of 2009 states, in part:

In the event a law enforcement officer, ambulance service or rescue squad member, firefighter, certified hazardous material response team member or National Guard member dies as a result of the performance of his duties, such political subdivision, Commonwealth agency or, in the case of National Guard members, the Adjutant General, or, in the case of a member of a Commonwealth law enforcement agency, the authorized survivor or the agency head, within 90 days from the date of death, shall submit certification of such death to the Commonwealth.

COALDALE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, Section 1(d) of Act 51 of 2009 states, in part:

. . . the Commonwealth shall, from moneys payable out of the General Fund, pay to the surviving spouse or, if there is no surviving spouse, to the minor children of the paid firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty the sum of \$100,000, adjusted in accordance with subsection (f) of this section, and an amount equal to the monthly salary, adjusted in accordance with subsection (f) of this section, of the deceased paid firefighter, ambulance service or rescue squad member or law enforcement officer, less any workers' compensation or pension or retirement benefits paid to such survivors, and shall continue such monthly payments until there is no eligible beneficiary to receive them. For the purpose of this subsection, the term "eligible beneficiary" means the surviving spouse or the child or children under the age of eighteen years or, if attending college, under the age of twenty-three years, of the firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty. When no spouse or minor children survive, a single sum of \$100,000, adjusted in accordance with subsection (f) of this section, shall be paid to the parent or parents of such firefighter, ambulance service member, rescue squad member or law enforcement officer. [Emphasis added.]

Furthermore, Section 2 of Act 51 of 2009 states:

Repeals are as follows:

- (1) The General Assembly declares that the repeals under paragraph (2) are necessary to effectuate the amendment of section 1 of the act.
- (2) The following parts of acts are repealed:
 - (i) Section 5(e)(2) of the act of May 29, 1956 (1955 P.L.1804, No. 600), referred to as the Municipal Police Pension Law.
 - (ii) Section 202(b)(3)(vi) and (4)(vi) of the act of December 18, 1984 (P.L.1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

Therefore, since Act 51 specifically repealed the killed in service provision of Act 600 and the funding provisions for the killed in service benefit that were contained in Act 205, the provision of a killed in service benefit is no longer authorized.

COALDALE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials again failed to update the plan’s governing document to ensure compliance with Act 600, as amended, as well as the prior audit recommendation.

Effect: Since Section 1 of Act 51 provides that the Commonwealth is obligated to pay the killed in service benefit less any pension or retirement benefits paid to eligible survivors, the continued provision of a killed in service benefit could result in the pension plan being obligated to pay a benefit that is no longer authorized by Act 600, and would have been paid entirely by the Commonwealth absent such provision.

Recommendation: We, again, recommend that the municipality review the plan’s killed in service benefit with its solicitor in conjunction with Act 51 of 2009, and eliminate this unauthorized benefit provision at its earliest opportunity to do so.

Management’s Response: Borough officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next plan engagement.

COALDALE 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 6,715	\$ 25,553
Interest	18,409	26,784
Difference between expected and actual experience	-	83,578
Changes of assumptions	-	8,521
Benefit payments, including refunds of member contributions	(16,412)	(16,412)
Net Change in Total Pension Liability	<u>8,712</u>	<u>128,024</u>
Total Pension Liability – Beginning	264,471	273,183
Total Pension Liability – Ending (a)	<u><u>\$ 273,183</u></u>	<u><u>\$ 401,207</u></u>
Plan Fiduciary Net Position		
Contributions – state aid	\$ -	\$ -
Contributions – member	5,718	7,321
Net investment income	27,688	(2,818)
Benefit payments, including refunds of member contributions	(16,412)	(16,412)
Administrative expense	(4,832)	(8,496)
Net Change in Plan Fiduciary Net Position	<u>12,162</u>	<u>(20,405)</u>
Plan Fiduciary Net Position – Beginning	453,364	465,526
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 465,526</u></u>	<u><u>\$ 445,121</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ (192,343)</u></u>	<u><u>\$ (43,914)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	170.4%	110.9%
Estimated Covered Employee Payroll	\$ 63,627	\$ 187,000
Net Pension Liability as a Percentage of Covered Employee Payroll	(302.3)	(23.5%)

COALDALE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 26,831	\$ 26,028
Interest	29,388	36,358
Difference between expected and actual experience	-	59,395
Changes of assumptions	-	1,169
Benefit payments, including refunds of member contributions	<u>(16,412)</u>	<u>(16,412)</u>
Net Change in Total Pension Liability	39,807	106,538
Total Pension Liability – Beginning	<u>401,207</u>	<u>441,014</u>
Total Pension Liability – Ending (a)	<u>\$ 441,014</u>	<u>\$ 547,552</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ -	\$ 3,608
Contributions – state aid*	11,202	13,131
Contributions – member	7,823	9,067
Net investment income	20,350	60,175
Benefit payments, including refunds of member contributions	(16,412)	(16,412)
Administrative expense	<u>(5,343)</u>	<u>(10,261)</u>
Net Change in Plan Fiduciary Net Position	17,620	59,308
Plan Fiduciary Net Position – Beginning	<u>445,121</u>	<u>462,741</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 462,741</u>	<u>\$ 522,049</u>
Net Pension Liability – Ending (a-b)	<u>\$ (21,727)</u>	<u>\$ 25,503</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	104.9%	95.3%
Estimated Covered Employee Payroll	\$ 144,392	\$ 197,478
Net Pension Liability as a Percentage of Covered Employee Payroll	(15.0%)	12.9%

* 2016 contributions do not include \$994 in state aid and \$509 in employer contributions which were transferred to the borough's non-uniformed pension plan.

COALDALE 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 and 2017, calculated using the discount rate of 7.0%, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability – 12/31/14	\$ (160,986)	\$ (192,343)	\$ (219,165)
Net Pension Liability – 12/31/15	\$ 15,471	\$ (43,914)	\$ (93,243)
Net Pension Liability – 12/31/16	\$ 44,070	\$ (21,727)	\$ (76,474)
Net Pension Liability – 12/31/17	\$ 104,079	\$ 25,503	\$ (39,410)

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.00%
2016	4.57%
2015	0.24%
2014	5.83%

COALDALE 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	\$ 372,201	\$ 256,649	\$ (115,552)	145.0%
01-01-15	465,526	365,282	(100,244)	127.4%
01-01-17	462,741	501,178	38,837	92.3%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period. 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.

The decrease in the plan's funded ratio as of 01-01-17 valuation were primarily due to both an asset loss and a liability loss. The liability loss was attributable to salaries increasing more than initially assumed and a refund of employee contributions.

COALDALE 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.

COALDALE BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 21,833	100.0%
2013	6,080	100.0%
2014	None	N/A
2015	None	N/A
2016	11,202	113.4%
2017	16,739	100.0%

COALDALE 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	16 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

COALDALE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Commonwealth of Pennsylvania

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