

COMPLIANCE AUDIT

East Donegal Township Non-Uniformed Employees Pension Plan

Lancaster County, Pennsylvania
For the Period
January 1, 2012 to December 31, 2015

October 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
East Donegal Township
Lancaster County
Marietta, PA 17547

We have conducted a compliance audit of the East Donegal Township Non-Uniformed Employees Pension Plan for the period January 1, 2012 to December 31, 2015. 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for all 3 of the 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 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 the 2 plan members 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 the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Donegal Township Non-Uniformed Employees 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 township's internal controls as they relate to the township'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 East Donegal Township Non-Uniformed Employees 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 East Donegal Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

September 30, 2016

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long, sweeping horizontal line extending to the right.

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 East Donegal Township Non-Uniformed Employees Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The East Donegal Township Non-Uniformed Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1994-10, as amended. The plan was established December 9, 1982. Active members are not required to contribute to the plan. As of December 31, 2015, the plan had 6 active members, 3 terminated members eligible for vested benefits in the future, and 5 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	For employees hired prior to 12/1/2011, attained age 60 and 7 years vesting service. For employees hired on or after 12/1/2011, attained age 64 and 15 years of vesting service.
Early Retirement	Attained age 50 and 15 years of vesting service.
Vesting	20% after 3 years of service plus 20% for each year thereafter up to 100%.

Retirement Benefit:

50% of Average Compensation multiplied by the Accrued Benefit Adjustment (Completed Service to date divided by Total Service at Normal Retirement Date) multiplied by the Short Service Percentage (Potential Service at Normal Retirement Date divided by 15). A Participant's Accrued Benefit cannot be less than their Accrued Benefit as of April 30, 2014. Compensation is averaged over the 5 consecutive years out of the 10 latest years which produces the highest average.

Survivor Benefit:

Monthly Annuity payable to spouse deferred to participant's early retirement date. Benefit is a Joint & 50% Survivorship Death Benefit.

Service Related Disability Benefit:

None

EAST DONEGAL TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 and 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

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 59,291	\$ 76,067
Interest	190,653	203,113
Change of benefit terms	3,821	-
Difference between expected and actual experience	-	11,651
Changes of assumptions	-	52,235
Benefit payments, including refunds of member contributions	(163,395)	(165,540)
Net Change in Total Pension Liability	<u>90,370</u>	<u>177,526</u>
Total Pension Liability - Beginning	2,560,624	2,650,994
Total Pension Liability - Ending (a)	<u>\$ 2,650,994</u>	<u>\$ 2,828,520</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 207,517	\$ 215,648
Net investment income	103,036	(30,577)
Benefit payments, including refunds of member contributions	(163,395)	(165,540)
Administrative expense	(6,650)	(6,250)
Net Change in Plan Fiduciary Net Position	<u>140,508</u>	<u>13,281</u>
Plan Fiduciary Net Position - Beginning	2,138,090	2,278,598
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,278,598</u>	<u>\$ 2,291,879</u>
Net Pension Liability - Ending (a-b)	<u>\$ 372,396</u>	<u>\$ 536,641</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.0%	81.0%
Estimated Covered Employee Payroll	\$ 336,697	\$ 366,671
Net Pension Liability as a Percentage of Covered Employee Payroll	110.6%	146.4%

EAST DONEGAL TOWNSHIP NON-UNIFORMED EMPLOYEES 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 township, calculated using the discount rate of 7.5%, as well as what the township'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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$ 809,701	\$ 536,641	\$ 301,488

SCHEDULE OF INVESTMENT RETURNS

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

2015	(1.36%)
2014	5.01%

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
2006	\$ 126,257	\$ 126,257	\$ -	\$ 201,157	62.8%
2007	125,905	125,905	-	300,134	41.9%
2008	175,140	176,563	(1,423)	395,316	44.7%
2009	176,154	176,154	-	399,208	44.1%
2010	180,665	180,665	-	407,353	44.4%
2011	185,035	195,035	(10,000)	431,042	45.2%
2012	183,493	183,493	-	422,910	43.4%
2013	173,957	201,147	(27,190)	370,882	54.2%
2014	179,581	207,517	(27,936)	336,697	61.6%
2015	184,281	215,648	(31,367)	366,671	58.8%

EAST DONEGAL TOWNSHIP NON-UNIFORMED EMPLOYEES 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, 2011, 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)
01-01-11	\$ 1,493,243	\$ 2,060,733	\$ 567,490	72.5%
01-01-13	1,852,361	2,490,046	637,685	74.4%
01-01-15	2,270,699	2,714,880	444,181	83.6%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair 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.

EAST DONEGAL TOWNSHIP NON-UNIFORMED EMPLOYEES 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.

EAST DONEGAL TOWNSHIP NON-UNIFORMED EMPLOYEES 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	Not disclosed
Asset valuation method	5-year smoothing - the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% inflation rate

EAST DONEGAL TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Dennis Drager
Chairman, Board of Township Supervisors

Mr. Allen Espenshade
Vice-Chairman, Board of Township Supervisors

Mr. John Murphy
Township Supervisor

Mr. Jeffrey Butler
Township Manager

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