COMPLIANCE AUDIT

Hempfield Township
Non-Uniformed Pension Plan

Westmoreland County, Pennsylvania

For the Period
January 1, 2015 to December 31, 2016

March 2018

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
Hempfield Township
Westmoreland County
Greensburg, PA 15601

We have conducted a compliance audit of the Hempfield Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2016. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and

2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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, 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 determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 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.

Hempfield Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hempfield Township 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 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Hempfield Township 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 findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Inconsistent Pension Benefit

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 Hempfield 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.

Eugene A. DePasquale

March 6, 2018

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 Hempfield Township 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 Hempfield Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 97-17, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established December 22, 1974. Active members are not required to contribute to the plan. As of December 31, 2016, the plan had 45 active members, 3 terminated members eligible for vested benefits in the future, and 59 retirees receiving pension benefits from the plan.

Effective January 1, 2015, Hempfield Township established a single-employer, defined contribution non-uniformed pension plan for all non-collectively bargained employees hired on or after January 1, 2015. This new plan is locally controlled by the provisions of Ordinance No. 2015-01. As of December 31, 2016, there were 5 plan members in the new defined contribution plan.

As of December 31, 2016, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 5 years of service
Early Retirement	None
Vesting	A member is 100% vested after 5 years of service

Retirement Benefit:

$50 per month times years of service (YOS) prior to 1/1/00, plus $60 times YOS on or after 1/1/00 but prior to 1/1/04, plus $65 times YOS on or after 1/1/04 but prior to 1/1/08, plus $70 times YOS on or after 1/1/08 but prior to 1/1/09, plus $75 times YOS on or after 1/1/09 but prior to 1/1/11, plus $70 times YOS on or after 1/1/11. (See discrepancy in Finding No. 2)

Survivor Benefit:

Before Retirement Eligibility	A lump sum of the actuarial equivalent value of the participant's vested accrued benefit at the date of death.
After Retirement Eligibility	As elected by the participant at retirement.

Service Related Disability Benefit:

Service Related	The actuarial equivalent of the accrued benefit payable on the disability retirement date. Must have 5 years of service, be totally and permanently disabled and be eligible for Social Security benefits.
Non-Service Related	Same as service related.

HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Hempfield Township partially complied with the prior audit recommendation concerning the following:

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

  During the current audit period, the township reimbursed $3,873 to the Commonwealth for the overpayment of state aid received in 2014; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2016 and 2017, as further discussed in the Findings and Recommendations section of this report.

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: As disclosed in the prior audit report, the township certified an ineligible non-uniformed employee and overstated payroll by $4,035 on the Certification Form AG 385 filed in 2014. During the current audit period, the township reimbursed the $3,873 to the Commonwealth for the overpayment of state aid received; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2016 and 2017.

In 2015, the township established a new defined contribution pension plan for all non-collectively bargained non-uniformed employees hired on or after January 1, 2015. The township failed to certify four eligible employees who are in this new plan and understated payroll by $150,904 on the Certification Form AG 385 filed in 2016, and failed to certify five eligible employees who are in this new plan and understated payroll by $246,601 on the Certification Form AG 385 filed in 2017. 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 were unaware that the members of the new defined contribution pension plan were eligible for certification.

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 township's state aid allocations were based on unit value, the township received an underpayment of state aid of $40,440 as identified below:

Year	Units Understated	Unit Value	State Aid Underpayment
2016	4	$ 4,375	$ 17,500
2017	5	$ 4,588	$ 22,940
Total Underpayment of State Aid			$ 40,440

Finding No. 1 – (Continued)

Although the township will be reimbursed for the underpayment of state aid due to the township's certification errors, the full amount of the 2016 and 2017 state aid allocations were not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

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 agreed with the finding without exception.

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

Finding No. 2 – Inconsistent Pension Benefit

Condition: The pension plan's governing document, Resolution No. 97-17, as amended, contains a benefit provision that conflicts with the collective bargaining agreement between the township and its non-uniformed employees, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement
Retirement benefit	Each Participant who shall become entitled to a benefit on or after January 1, 1994, shall receive a benefit commencing on the Normal Retirement Date paid monthly in an amount of $50 multiplied by a Participant's Years of Credited Service (YOS) prior to January 1, 2000 plus, $60 multiplied by a Participant's YOS on or after January 1, 2000 but prior to January 1, 2004 plus, $65 multiplied by a Participant's YOS on or after January 1, 2004 but prior to January 1, 2008 plus, $70 multiplied by a Participant's YOS on or after January 1, 2008 but prior to January 1, 2009 plus, $75 multiplied by a Participant's YOS on or after January 1, 2009 but prior to January 1, 2011 plus, $70 multiplied by a Participant's YOS on or after January 1, 2011.	Monthly pension at normal or any later retirement date will be based on the following benefit structure: For Employees retiring on or after January 1, 1994, a monthly benefit equal to the sum of $50.00 per month multiplied by the Employee's total Years of Service (YOS) for years to and including 1999; a monthly benefit equal to the sum of $60 per month multiplied by the Employee's total YOS for the years 2000 to 2003; a monthly benefit equal to the sum of $65 per month multiplied by the Employee's total YOS for the years 2004 through and including 2007; a monthly benefit equal to the sum of $70 per month multiplied by the Employee's one YOS for 2008; a monthly benefit equal to the sum of $75 per month multiplied by the Employee's YOS for years 2009 through and including 2010; a monthly benefit equal to the sum of $70 per month multiplied by the Employee's YOS for the years 2011 through and including 2014; a monthly benefit equal to the sum of $75 per month multiplied by the Employee's YOS for the years 2015 through and including 2020.

Finding No. 2 – (Continued)

In addition, the actuarial valuation report form 203C, for the non-uniformed pension plan, with a valuation date of January 1, 2015, submitted to the former Public Employee Retirement Commission, reported the benefit provisions included in the collective bargaining agreement.

Furthermore, during and subsequent to the current audit period, three members retired and their pension benefits were calculated in accordance with the benefit provision included in the collective bargaining agreement.

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to update the plan's governing document.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

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.

HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 8 through 10 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

	2014	2015
Total Pension Liability		
Service cost	$ 218,026	$ 194,251
Interest	722,536	751,486
Change of benefit terms	97,762	-
Difference between expected and actual experience	188,372	-
Changes of assumptions	-	503,671
Benefit payments, including refunds of member contributions	(682,084)	(752,890)
Net Change in Total Pension Liability	544,612	696,518
Total Pension Liability - Beginning	12,193,714	12,738,326
Total Pension Liability - Ending (a)	$ 12,738,326	$ 13,434,844
Plan Fiduciary Net Position		
Contributions – employer	$ 591,076	$ 595,574
Net investment income	579,690	(182,544)
Benefit payments, including refunds of member contributions	(682,084)	(752,890)
Net Change in Plan Fiduciary Net Position	488,682	(339,860)
Plan Fiduciary Net Position - Beginning	10,000,625	10,489,307
Plan Fiduciary Net Position - Ending (b)	$ 10,489,307	$ 10,149,447
Net Pension Liability - Ending (a-b)	$ 2,249,019	$ 3,285,397
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.34%	75.55%
Estimated Covered Employee Payroll	$ 2,355,425	$ 2,340,762
Net Pension Liability as a Percentage of Covered Employee Payroll	95.48%	140.35%

HEMPFIELD TOWNSHIP 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 township as of December 31, 2014 and 2015, calculated using the discount rate of 6.0%, 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 (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability - 12/31/14	$ 3,633,170	$ 2,249,019	$ 1,070,712
Net Pension Liability - 12/31/15	$ 4,788,284	$ 3,285,397	$ 2,015,129

The discount rate of 6.0% was used in the preparation of the township's December 31, 2014 and 2015 GASB 67 report. This rate differs from the 6.5% reported in the Notes to Supplementary Schedules on page 13 of this report.

HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	(a) Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	(b) Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2007	$ 307,126	$ 307,126	$ -	$2,433,550	12.6%
2008	335,708	335,708	-	2,523,630	13.3%
2009	329,969	329,969	-	2,495,112	13.2%
2010	319,364	319,364	-	2,485,190	12.9%
2011	408,899	408,899	-	2,615,514	15.6%
2012	458,495	458,495	-	2,434,464	18.8%
2013	441,578	441,578	-	2,156,266	20.5%
2014	591,076	591,076	-	2,619,100	22.6%
2015	595,574	595,574	-	2,355,425	25.3%
2016	568,662	568,662	-	2,340,762	24.3%

(a) Equal to the Minimum Municipal Obligation (MMO) under Act 205 of 1984.

(b) Estimate of projected W-2 payroll for the preceding year as shown on the MMO calculation.

SCHEDULE OF INVESTMENT RETURNS

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

2016	6.7%
2015	(1.8%)
2014	5.8%
2013	14.5%
2012	13.0%
2011	(1.0%)
2010	11.4%
2009	20.3%
2008	(22.6%)
2007	6.4%

HEMPFIELD TOWNSHIP 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, 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	$ 8,125,727	$ 9,903,096	$ 1,777,369	82.1%
01-01-13	8,868,322	11,483,244	2,614,922	77.2%
01-01-15	10,552,833	12,792,120	2,239,287	82.5%

HEMPFIELD TOWNSHIP 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.

HEMPFIELD TOWNSHIP 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	8 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	6.5%
Projected salary increases	Not applicable

* Includes inflation at 2.75%

HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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