

COMPLIANCE AUDIT

Ligonier Township Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2018 to February 7, 2019

July 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Ligonier Township
Westmoreland County
Ligonier, PA 15658

We have conducted a compliance audit of the former Ligonier Township Police Pension Plan for the period January 1, 2018 to February 7, 2019. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 former 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017, actuarial valuation report was prepared and submitted by March 31, 2018, 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.

Ligonier Township contracted with an independent certified public accounting firm for annual audits its basic financial statements as of December 31, 2018 and 2019 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 former Ligonier Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

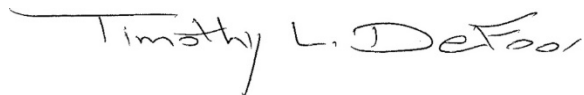
The results of our procedures indicated that, in all significant respects, the former Ligonier Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Failure To Deposit The Full Amount Of State Aid Into An Eligible 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.

Effective December 31, 2018, Ligonier Township entered into a Charter Agreement with Ligonier Borough to create the Ligonier Valley Police Department. On February 7, 2019, and March 5, 2019, the township transferred the former police pension plan's assets, along with the related pension liabilities, to the newly established Ligonier Valley Police Pension Plan. This report represents the final audit of the former pension plan.

The contents of this report were discussed with officials of Ligonier 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
June 12, 2023

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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.

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 former Ligonier Township Police Pension Plan was also governed by implementing regulations 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 former Ligonier Township Police Pension Plan was a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 99-14, as amended, adopted pursuant to Act 600. The plan was also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established June 12, 1973. Active members were required to contribute five (5.0) percent of annual compensation to the plan; however, member contributions were eliminated during the audit period. As of February 7, 2019, the plan no longer had any active members.

Effective December 31, 2018, Ligonier Township entered into a Charter Agreement with Ligonier Borough to create the Ligonier Valley Police Department. Article XII of the Charter Agreement mandated that both municipalities transfer its existing pension funds into the Consolidated Police Pension Plan adopted pursuant to Act 600. On February 7, 2019, the township transferred the majority of the former police pension plan's assets, along with the related pension liabilities, to the newly established Ligonier Valley Police Department Pension Plan. Additionally, on March 5, 2019, the remaining residual account balance of the former police pension plan was also transferred to the newly consolidated plan.

LIGONIER TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

Condition: The municipality did not deposit the full amount of its 2018 state aid allocation into an eligible pension plan. The municipality received its 2018 state aid allocation in the amount of \$74,262, on September 20, 2018, but, as of the date of this report, only state aid totaling \$57,911 was deposited into its eligible pension plans.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The full amount of the 2018 state aid was not deposited into an eligible pension plan because after funding the initial former defined benefit pension obligation and the non-uniformed defined contribution requirements for 2018, the township failed to ensure the remainder of the state aid received during 2018 was deposited into the former defined benefit pension plan prior to transferring the former plan assets to the Ligonier Valley Police Pension Plan in 2019 as noted in the Background section of this report.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to fund benefits, pay operating expenses or for investment and the risk of misapplication of state aid is increased.

Recommendation: Since the township's non-uniformed pension plan is a defined contribution plan and the annual pension costs were met for 2018, we recommend that the municipality forward the township's remaining state aid allocation of \$16,351, plus interest earned during the period beyond the 30-day grace period allowed by Act 205, compounded annually, to the Ligonier Valley Police Pension Plan. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Management's Response: The township provided the following response, dated June 7, 2023:

The township agrees with most of this finding. We will deposit the township's remaining state aid allocation of \$16,351 into the Ligonier Valley Regional Police Plan.

However, as the funds have been in our general fund, no interest has been accrued. The Township does not have a defined benefit plan with an annual assumed rate of return. The interest earnings in our general fund are 0%. Only \$16,351 will be transferred to the Ligonier Valley Regional Police Plan.

LIGONIER TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Auditor's Conclusion: Based on the management response, it appears the township intends to comply with the recommendation. Due to the potential withhold of state aid, *disclosed in the non-uniformed pension plan report*, the township's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

LIGONIER TOWNSHIP 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, 2017, 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)
01-01-17	\$ 1,156,215	\$ 748,059	\$ (408,156)	154.6%

Note: The market value of the plan’s assets at 01-01-17 has been adjusted to reflect the method described in Act 205 Section 210. 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.

As noted earlier in this report, Ligonier Township consolidated police departments with Ligonier Borough forming the Ligonier Valley Police Department and transferred its former police pension plan assets, along with the related pension liabilities to the newly consolidated police pension plan during 2019.

LIGONIER TOWNSHIP 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.

LIGONIER TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2017	\$ 3,799	536.6%
2018	12,707	100.0%
2019	32,019*	100.0%

** 2019 required contribution was deposited into the Ligonier Valley Police Pension Plan.*

LIGONIER TOWNSHIP 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	Market value, smoothing method described in Act 205, Section 210.
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases	4.0%

LIGONIER TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Dan Resenic
Chairman, Board of Township Supervisors

Mr. Michael Strelie
Township Manager

Ms. Bethany Caldwell
Finance Director

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.