

# COMPLIANCE AUDIT

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## Shenango Township Police Pension Plan Lawrence County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

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October 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
Shenango Township  
Lawrence County  
New Castle, PA 16101

We have conducted a compliance audit of the Shenango Township Police Pension Plan for the period January 1, 2014 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 for the years covered by our audit period due to the fact that employee contributions were 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, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the 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.
- 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango Township Police 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 Shenango 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 Formally Adopt Plan Benefit Provisions

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 Shenango 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 7, 2016



EUGENE A. DEPASQUALE  
Auditor General

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

## 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 Shenango Township Police 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 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. § 761 et seq.

The Shenango Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2-2008, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established December 1, 1982. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2015, the plan had 7 active members, no terminated members eligible for vested benefits in the future, and 4 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	Age 55 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of the average monthly pay based on the final 60 months of service, plus an additional 2.0% of the retirement benefit multiplied by years of service in excess of 25 (maximum \$100).

### Survivor Benefit:

Before Retirement Eligibility	If not eligible for vesting, refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

Benefit is 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

Note: These benefit provisions were in effect pursuant to the agreement with the plan's previous custodian, PSABMRT. (See Finding.)

SHENANGO TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Shenango Township has complied with the prior audit recommendation concerning the following:

- Pension Benefits Not In Compliance With Act 600 Provisions

Municipal officials enacted Ordinance No. 3 of 2014 to adopt a new joinder agreement with PSABMRT which contains provisions that are in compliance with Act 600.

SHENANGO TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Formally Adopt Plan Benefit Provisions**

Condition: Prior to May 2015, the township had an agreement with PSABMRT pursuant to Act 600 which was adopted by Ordinance No. 3 of 2014. Effective May 2015, although the township intends to maintain the plan’s Act 600 benefit structure, the township transferred the administration of the plan to a new custodian; however, the transfer of the plan’s assets and the plan’s benefit structure have not been formally adopted through a properly executed ordinance.

Criteria: Section 1(a)(1) of Act 600 states, in part:

Each borough, town and township. . . maintaining a police force of three or more full-time members shall . . . establish, by ordinance or resolution, a police pension fund. . . .

Cause: Municipal officials were unaware that the joinder agreement with PSABMRT would no longer be in effect when they transferred the police pension plan assets to the new custodian.

Effect: The absence of formalized pension plan provisions may result in the inclusion of ineligible employees, inadequate members’ contributions, the payment of unauthorized benefits, and/or inconsistent benefit calculations.

Recommendation: We recommend that municipal officials, with the assistance of their solicitor, immediately adopt an ordinance which establishes the plan’s benefit provisions in accordance with the provisions of Act 600.

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.

SHENANGO TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 5 and 6 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	\$ 47,733	\$ 60,165
Interest	56,108	64,266
Difference between expected and actual experience	-	31,145
Changes of assumptions	-	23,390
Benefit payments, including refunds of member contributions	(34,836)	(34,836)
Net Change in Total Pension Liability	<u>69,005</u>	<u>144,130</u>
Total Pension Liability - Beginning	904,813	973,818
Total Pension Liability - Ending (a)	<u>\$ 973,818</u>	<u>\$ 1,117,948</u>
 Plan Fiduciary Net Position		
Contributions – state aid	\$ 56,530	\$ 60,703
Net investment income	29,565	(29,434)
Benefit payments, including refunds of member contributions	(34,836)	(34,836)
Administrative expense	(8,497)	(4,341)
Net Change in Plan Fiduciary Net Position	<u>42,762</u>	<u>(7,908)</u>
Plan Fiduciary Net Position - Beginning	906,211	948,973
Plan Fiduciary Net Position - Ending (b)	<u>\$ 948,973</u>	<u>\$ 941,065</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 24,845</u>	<u>\$ 176,883</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.4%	84.2%
Estimated Covered Employee Payroll	\$ 324,856	\$ 340,000
 Net Pension Liability as a Percentage of Covered Employee Payroll	7.6%	52.0%

SHENANGO TOWNSHIP 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 township at December 31, 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	\$ 355,106	\$ 176,883	\$ 30,529

SCHEDULE OF INVESTMENT RETURNS

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

2015	(3.15%)
2014	3.32%

SHENANGO 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, 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	\$ 944,392	\$ 730,440	\$ (213,952)	129.3%
01-01-13	921,700	846,663	(75,037)	108.9%
01-01-15	948,973	1,028,353	79,380	92.3%

SHENANGO 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.

SHENANGO 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
2010	\$ 6,993	100.0%
2011	17,984	100.0%
2012	18,916	144.0%
2013	29,329	100.0%
2014	56,530	100.0%
2015	59,053	102.8%

SHENANGO 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	6.0%
Projected salary increases	4.0%

\* Includes inflation at 2.25%

SHENANGO TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Russell J. Riley**  
Chairman, Board of Township Supervisors

**Mr. Albert D. Burick, III**  
Township Supervisor/Chief Administrative Officer

**Mr. Frank Augustine**  
Township Supervisor

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