



**WASHINGTON TOWNSHIP POLICE  
PENSION PLAN**

**FAYETTE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2011, TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Washington Township  
Fayette County  
Belle Vernon, PA 15012

We have conducted a compliance audit of the Washington Township Police Pension Plan for the period January 1, 2011, to December 31, 2012. 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 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 findings 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. Our methodology addressed determinations about the following

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The Washington Township Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Washington 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, 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 tests indicated that, in all significant respects, the Washington 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 findings further discussed later in this report:

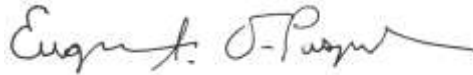
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Payroll Used For Vested Pension Benefit Calculation

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Deduct Employee Contributions In Accordance With The Provisions Of The Governing Plan Document

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the township's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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 Washington 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  
Auditor General

May 12, 2014

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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 Washington 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Washington Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 04-05, adopted pursuant to Act 15. The plan is also affected by the provisions of the individual employee contract agreements between the township and its police officers. The plan was established January 4, 1984. Active members hired prior to January 1, 2002 are required to contribute 3 percent of their compensation to the plan and active members hired on after January 1, 2002 are required to contribute 5 percent of their compensation to the plan. As of December 31, 2012, the plan had 2 active members, no terminated members eligible for vested benefits in the future and 1 retiree receiving pension benefits through an annuity purchased with plan assets.

## **BACKGROUND – (Continued)**

As of December 31, 2012, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement    Age 55 and 12 years of credited service.

Early Retirement     None available.

Vesting                100% after 12 years of service.

### Retirement Benefit:

If hired prior to January 1, 2002, benefit is 70% of final average salary. If hired on or after January 1, 2002, benefit is 2% times final average salary with basic benefit not to exceed 50% of final average salary. Final average salary is based on last 3 years annualized salary. There is no Social Security offset.

### Survivor Benefit:

If eligible to retire or if retired at time of death, spouse receives 50% of member's benefit.

### Disability Benefit:

Service Related – If hired prior to January 1, 2002, benefit is equal to 70% of final average salary if unable to perform gainful employment. If hired on or after January 1, 2002, benefit is equal to 50% of final average salary if unable to perform gainful employment, offset by Worker's Compensation benefits.

Non-service Related - If hired prior to January 1, 2002, no benefit provided. If hired on or after January 1, 2002, with at least 10 years of service and unable to perform gainful employment, benefit equal to 30% of final average salary.

WASHINGTON TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Washington Township has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Undocumented Payroll Used For Vested Pension Benefit Calculation
- Failure To Deduct Employee Contributions In Accordance With The Provisions Of The Governing Plan Document



WASHINGTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Undocumented Payroll Used For Vested Pension Benefit Calculation**

Condition: As disclosed in the prior audit report, the vested pension benefit calculation prepared for a plan member who terminated employment on May 1, 2005, was prepared using higher payroll amounts which do not agree with the township's payroll records for the member's final 36 months of employment.

Criteria: Section 9 of the plan agreement states:

After twelve (12) years of credited service, a member may vest by filing an application with the Board. Upon attainment of the superannuation age requirement found in Section 2 of this agreement, a basic benefit will be calculated in accordance with Section 3 of the agreement.

Section 4 of the Pension Plan Agreement with PMRS dated November 10, 2004, states in part:

The final salary shall be the average annual compensation earned and paid during the member's final three (3) consecutive years of employment....

In addition, Section 3 of the plan agreement states:

For members hired prior to January 1, 2002, the basic annual benefit shall be equal to seventy percent (70%) of the member's final salary.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the member's payroll information that was submitted to PMRS for the vested pension benefit determination. In addition, plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Based on an estimate prepared by this Department, beginning June 1, 2012, the retiree is receiving an excess monthly benefit of \$155.

Recommendation: We again recommend that municipal officials review the pension benefit determination with PMRS and either obtain the necessary documentation to support the payroll figures used in the original benefit calculation or recalculate the pension benefit based on accurate payroll information based on the retired member's last 36 months of employment.

WASHINGTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management Response: The township is working closely with PMRS to determine the monthly benefit the retiree is entitled to and a revised benefit calculation has been prepared; however, the retirees' monthly benefit has not yet been adjusted.

Auditor's Conclusion: We encourage plan officials to comply with the finding and recommendation at their earliest opportunity to do so.

**Finding No. 2 - Noncompliance With Prior Audit Recommendation – Failure To Deduct Employee Contributions In Accordance With The Provisions Of The Governing Plan Document**

Condition: As disclosed in the prior audit report, through October of 2011, the municipality failed to deduct and deposit any employee contributions for an employee who became a plan member on February 1, 2010. For the period November of 2011, through December 31, 2012, the municipality deducted employee contributions from the member but only at the rate of 3 percent, instead of the required 5 percent.

Criteria: Section 8 of the Pension Plan Agreement with PMRS, dated November 10, 2004, established a two-tiered employee contribution schedule based on the member's date of hire. Members hired prior to January 1, 2002, are required to contribute 3 percent of their compensation into the pension plan. Members hired after January 1, 2002, are required to contribute 5 percent of their compensation into the pension plan. Effective January 1, 2013 the contribution rate was set at 3 percent for all plan members for calendar year 2013 only.

Cause: Plan officials failed to establish adequate control procedures to ensure that all plan members are contributing in accordance with the PMRS plan agreement. In addition, plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: As of December 31, 2012, the plan is owed approximately \$4,835 for member contributions that have not been deposited to the plan. Insufficient member contributions could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

WASHINGTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We again recommend that municipal officials determine the amount of employee contributions due to the plan retroactive to the member's eligibility date of February 1, 2010, and take appropriate action to ensure the proper amount of employee contributions are deposited into the pension plan.

Management Response: Municipal officials stated they would respond in writing to the finding, however no response was received.

Auditor's Conclusion: We are concerned by the township's failure to comply with this prior audit finding and encourage plan officials to comply with the finding and recommendation at their earliest opportunity to do so.

WASHINGTON 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, 2007, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 386,445	\$ 399,495	\$ 13,050	96.7%	\$ 106,945	12.2%
01-01-09	482,478	461,576	(20,902)	104.5%	75,775	(27.6%)
01-01-11	566,106	527,635	(38,471)	107.3%	88,410	(43.5%)

WASHINGTON 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

WASHINGTON 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
2007	\$ 16,233	110.1%
2008	16,190	100.0%
2009	18,338	100.0%
2010	7,390	100.0%
2011	11,737	100.0%
2012	12,784	104.6%

WASHINGTON TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the required 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, 2011
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
Cost-of-living adjustments	3.0%, where applicable

\* Includes inflation at 3.0%

WASHINGTON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Washington Township Police Pension Plan  
Fayette County  
1390 Fayette Avenue  
Belle Vernon, PA 15012

Mr. Charles Yusko	Chairman, Board of Township Supervisors
Mr. Dan Moody	Township Supervisor
Ms. Amy Naulty	Secretary/Chief Administrative Officer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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