

COMPLIANCE AUDIT

Hempfield Township Non-Uniformed Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

August 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**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, 2012 to December 31, 2014. 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 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 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 12 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, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 audits of its basic financial statements for the years ended December 31, 2012 and December 31, 2013 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 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 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 finding further discussed later in this report:

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

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.

July 9, 2015

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

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 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, 2014, the plan had 38 active members, 3 terminated members eligible for vested benefits in the future, and 56 retirees receiving pension benefits from the plan.

Subsequent to the current audit period on March 23, 2015, the township adopted Ordinance No. 2015-01 which provides for a defined contribution component of the plan for all non-collectively bargained employees hired on or after January 1, 2015.

BACKGROUND – (Continued)

As of December 31, 2014, 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 percent 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 but prior to 1/1/15, plus \$70 times YOS on or after 1/1/15 but prior to Normal Retirement.

Survivor Benefit:

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

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
FINDING AND RECOMMENDATION

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

Condition: The township certified 1 ineligible non-uniformed employee and overstated payroll by \$4,035 on the Certification Form AG 385 filed in 2014. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township’s state aid allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2014	1	\$ 3,873	\$ 3,873

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the \$3,873 overpayment of state aid be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

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

SCHEDULE OF CHANGES IN THE NET PENSION
 LIABILITY AND RELATED RATIOS

Total Pension Liability		
Service cost	\$	218,026
Interest		722,801
Change of benefit terms		78,628
Benefit payments, including refunds of member contributions		(673,958)
Net Changes in Total Pension Liability		<u>345,497</u>
Total Pension Liability - Beginning		12,193,714
Total Pension Liability – Ending (a)	\$	<u><u>12,539,211</u></u>
Plan Fiduciary Net Position		
Contributions - employer	\$	591,076
Net investment income		592,570
Benefit payments, including refunds of member contributions		(673,958)
Administrative expense		(8,560)
Net Changes in Plan Fiduciary Net Position		<u>501,128</u>
Plan Fiduciary Net Position - Beginning		10,052,156
Plan Fiduciary Net Position – Ending (b)	\$	<u><u>10,553,284</u></u>
Net Position Liability – Ending (a)-(b)	\$	<u><u>1,985,927</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		84%
Estimated Covered Employee Payroll	\$	2,656,339
Net Position Liability as a Percentage of Covered Employee Payroll		75%

Note: Measurement date is December 31, 2014. Standard actuarial techniques were used to roll forward the Total Pension Liability from the valuation date to the measurement date.

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 plan, calculated using the discount rate of 6.0%, as well as what the plan'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%)
Plan's Net Pension Liability	\$ 3,332,507	\$ 1,985,927	\$ 836,900

Note: The 6.0% discount rate has been determined net of investment expenses. This accounts for the difference between the discount rate and the 6.5% assumed investment rate of return included in the plan's January 1, 2013, actuarial valuation 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
2005	\$ 535,480	\$ 535,480	\$ -	\$ 2,402,836	22.29%
2006	291,068	291,068	-	2,280,283	12.76%
2007	307,126	307,126	-	2,433,550	12.62%
2008	335,708	335,708	-	2,523,630	13.30%
2009	329,969	329,969	-	2,495,112	13.22%
2010	319,364	319,364	-	2,485,190	12.85%
2011	408,899	408,899	-	2,615,514	15.63%
2012	458,495	458,495	-	2,434,464	18.83%
2013	441,578	441,578	-	2,156,266	20.48%
2014	591,076	591,076	-	2,619,100	22.57%

(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.

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

SCHEDULE OF ESTIMATED RATES OF RETURN
ON PENSION PLAN INVESTMENTS

<u>Year</u>	<u>Estimated Annual Return, Net of Investment Expenses</u>
2014	5.9%
2013	14.5%
2012	13.0%
2011	(1.0%)
2010	11.4%
2009	20.3%
2008	(22.6%)
2007	6.4%
2006	9.3%
2005	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, 2009, 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)
01-01-09	\$ 6,162,905	\$ 9,100,602	\$ 2,937,697	67.7%
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%

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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	6.5%
Projected salary increases	Not applicable

* Includes inflation at 2.5%

HEMPFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Hempfield Township Non-Uniformed Pension Plan
Westmoreland County
1132 Woodward Drive, Suite A
Greensburg, PA 15601

Mr. R. Douglas Weimer	Chairman, Board of Township Supervisors
Mr. Andrew Walz	Township Manager
Mr. Tom Logan	Treasurer
Ms. Michelle Predajna	Secretary

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