

# COMPLIANCE AUDIT

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## Millcreek Township Aggregated Pension Plan Erie County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

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July 2015



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  
Millcreek Township  
Erie County  
Erie, PA 16506

We have conducted a compliance audit of the Millcreek Township Aggregated Pension Plan for the period January 1, 2013 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- × We determined whether retirement benefits calculated for the 8 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 also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period, represent payments to all (and only) those entitled to receive them and was properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined.
- × We determined whether the January 1, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014, 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.
- × We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- × We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.
- × We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

Millcreek 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 Millcreek Township Aggregated 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 Millcreek Township Aggregated Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Millcreek 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.

June 29, 2015



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 Millcreek Township Aggregated 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

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 Millcreek Township Aggregated Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2006-15, as amended, adopted pursuant to Act 600 for its police officers, and Ordinance No. 2013-4, adopted pursuant to Act 69 for its non-uniformed employees. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers and non-uniformed employees.

## **BACKGROUND – (Continued)**

### POLICE PENSION PLAN

The plan was established November 24, 1950. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2014, the plan had 57 active members, no terminated members eligible for vested benefits in the future, and 49 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected plan benefit provisions are as follows:

#### Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	Member is 100% vested after 12 years of service.

#### Retirement Benefit:

Benefit equals 50% of compensation averaged over the last 36 months, plus a monthly service increment of \$20 for each year of service in excess of 25 years (maximum \$100).

#### Survivor Benefit:

Before Retirement Eligibility	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 equals 50% of compensation averaged over the last 36 months, but no less than 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

**BACKGROUND – (Continued)**

GENERAL EMPLOYEES’ PENSION PLAN

The plan was established April 1, 1960. Active members are required to contribute 4 percent of compensation for the first 20 years, then 2 percent thereafter, to the plan. As of December 31, 2014, the plan had 124 active members, 6 terminated members eligible for vested benefits in the future, and 52 retirees receiving pension benefits from the plan.

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

- Normal Retirement    Age 62 and 10 years of service.
- Early Retirement     Age 55 and 10 years of service.
- Vesting                Member is 100% vested after 10 years of service.

Retirement Benefit:

Benefit equals 2.5625% of final 36 months average salary multiplied by years of service to a maximum of 20, plus \$10 per year of service in excess of 20 (maximum \$100).

Survivor Benefit:

- Before Retirement Eligibility    Refund of contributions plus interest.
- After Retirement Eligibility     Participant’s accrued benefit at date of death is payable to the beneficiary until the earlier of death or 120 months. After retirement, the normal form of benefit is a monthly pension for life with 120 payments guaranteed, however, the participant may select an optional form of benefit that is an actuarial equivalent of the normal form.

Disability Benefit:

- Service Related            After 10 years of service, benefit is 2.5625% of final monthly average salary multiplied by years of service to a maximum of 20 years, payable immediately, but actuarially reduced for commencement at date of disablement.
- Non-Service Related    Same as service related.



MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CHANGES IN THE TOWNSHIP'S NET PENSION  
 LIABILITY AND RELATED RATIOS  
 DECEMBER, 2014

Total Pension Liability (TPL) at Plan Year End: *(roll forward from January 1, 2013)*

Actuarial Accrued Liability (AAL) at January 1, 2013	\$ 58,160,205
Service Cost	2,803,664
Benefit Payments	(5,016,916)
Interest	9,008,989
	64,955,942
Total Pension Liability (TPL)	64,955,942
Plan Fiduciary Net Position (PFNP)	(59,226,265)
	\$ 5,729,677
Township Net Position Liability (NPL)	\$ 5,729,677
Plan Fiduciary net position as a percentage of the total pension liability	91.2%
Covered employee payroll	\$ 11,159,633
Township's Net Position Liability as a percentage of covered employee payroll	51.3%

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 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
	\$	\$	\$
Plan's Net Pension Liability	\$ 1,290,366	\$ 5,729,675	\$ (833,831)

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered- employee Payroll
2007	\$ 881,998	\$ 881,998	\$ -	\$ -	
2008	1,055,761	1,055,761	-	9,870,033	10.7%
2009	949,076	949,076	-	-	
2010	1,621,813	1,621,813	-	10,843,624	15.0%
2011	1,679,506	1,529,417	150,089	-	
2012	1,692,843	1,542,754	150,089	11,159,633	13.8%
2013	2,352,690	2,352,690	-	-	
2014	2,683,853	2,683,853	-	12,249,051	21.9%

For 2011 and 2012, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

Annual money-weighted rate of return, net of investment expenses not funded through the minimum municipal obligation (MMO).

2014

5.77%

MILLCREEK TOWNSHIP AGGREGATED 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:

POLICE PENSION PLAN

	(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	\$ 22,879,821	\$ 26,215,129	\$ 3,335,308	87.3%
01-01-11	23,585,452	29,284,056	5,698,604	80.5%
01-01-13	25,699,661	31,875,543	6,175,882	80.6%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

MILLCREEK TOWNSHIP AGGREGATED 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:

GENERAL EMPLOYEES' PENSION PLAN

	(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	\$ 16,881,530	\$ 18,983,094	\$ 2,101,564	88.9%
01-01-11	18,841,476	23,788,708	4,947,232	79.2%
01-01-13	21,177,083	26,284,662	5,107,579	80.6%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

MILLCREEK TOWNSHIP AGGREGATED 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.

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES  
 ACT 205 MINIMUM MUNICIPAL OBLIGATION (MMO)

POLICE PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 479,463	100.0%
2010	903,394	100.0%
2011	871,778	100.0%
2012	884,709	100.0%
2013	1,207,997	100.0%
2014	1,408,495	100.0%

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES  
 ACT 205 MINIMUM MUNICIPAL OBLIGATION (MMO)

GENERAL EMPLOYEES' PENSION PLAN

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 469,613	100.0%
2010	718,419	100.0%
2011	657,639	100.0%
2012	658,045	100.0%
2013	1,144,693	100.0%
2014	1,275,358	100.0%

MILLCREEK TOWNSHIP AGGREGATED 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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.5%, net of investment expenses
Projected salary increases *	5.0%
Cost-of-living adjustments	3.0%

\* Includes inflation at 3.0%



MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN  
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GENERAL EMPLOYEES' PENSION PLAN

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	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.5%, net of investment expenses
Projected salary increases *	4.5%
Cost-of-living adjustments	3.0%

\* Includes inflation at 3.0%

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Millcreek Township Aggregated Pension Plan  
Erie County  
3608 West 26th Street  
Erie, PA 16506

Mr. Richard P. Figaski                      Chairman, Board of Township Supervisors

Mr. Gerald M. Wolf                      Township Treasurer

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