

COMPLIANCE AUDIT

Ohio Township Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

December 2017



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
Ohio Township
Allegheny County
Pittsburgh, PA 15237

We have conducted a compliance audit of the Ohio Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2016. 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 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 the retirement benefit calculated for the plan member who elected a lump-sum form of pension benefit during the current audit period represents a payment 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former 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.

Ohio Township contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 Ohio 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 Ohio Township Non-Uniformed 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. However, we are extremely concerned about the funding status of the plan contained in the schedule of funding progress included in this report which indicates **the plan's funding ratio is 69.2% as of January 1, 2015**, which is the most recent data available. We encourage township officials to monitor the funding of the non-uniformed pension plan to ensure its long term financial stability.

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



December 12, 2017

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 Ohio Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Ohio Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 249, as amended. The plan was established January 1, 1986. Active members are not required to contribute to the plan. As of December 31, 2016, the plan had 16 active members, 1 terminated member eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2016, 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% vested after 5 years of service

Retirement Benefit:

Active employees whose service commenced prior to January 1, 2003, shall receive an amount equal to the total of all employer contributions together with all earnings, shown in the participant's defined contribution account balance at the time of retirement. All active members who complete the age and service requirements shall receive a monthly pension for life equal to 2.5% credit for each year of service (maximum of 75%) times the average monthly compensation over the participant's last 12 months of employment.

Survivor Benefit:

Beneficiary is entitled to receive the assets credited to the participant's defined contribution account, if any.

Service Related Disability Benefit:

If a participant becomes totally disabled as defined he or she is entitled to receive the assets credited to the defined contribution account, if any.

**OHIO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)**

The supplementary information contained on Pages 3 and 4 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
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016**

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 114,541	\$ 120,268
Interest	349,479	382,567
Difference between expected and actual experience	(92,713)	-
Benefit payments, including refunds of member contributions	(56,086)	(56,199)
Net Change in Total Pension Liability	<u>315,221</u>	<u>446,636</u>
Total Pension Liability - Beginning	<u>4,374,703</u>	<u>4,689,924</u>
Total Pension Liability - Ending (a)	<u>\$ 4,689,924</u>	<u>\$ 5,136,560</u>
 Plan Fiduciary Net Position		
Contributions – state aid	\$ 54,892	\$ 65,620
Contributions – employer	316,954	327,650
Net investment income	(88,051)	182,102
Benefit payments, including refunds of member contributions	(56,086)	(56,199)
Net Change in Plan Fiduciary Net Position	<u>227,709</u>	<u>519,173</u>
Plan Fiduciary Net Position - Beginning	<u>2,964,922</u>	<u>3,192,631</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,192,631</u>	<u>\$ 3,711,804</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 1,497,293</u>	<u>\$ 1,424,756</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.07%	72.26%
 Estimated Covered Employee Payroll	\$ 808,000	\$ 933,090
 Net Pension Liability as a Percentage of Covered Employee Payroll	185.31%	152.69%

**OHIO 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 township as of December 31, 2015 and 2016, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability - 12/31/15	\$ 1,980,972	\$ 1,497,293	\$ 1,091,492
Net Pension Liability - 12/31/16	\$ 1,926,317	\$ 1,424,756	\$ 1,004,974

OHIO 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, 2011, is as follows:

	(1) Actuarial Valuation Date	(2) Actuarial Value of Assets (a)	(3) Actuarial Accrued Liability (AAL) - Entry Age (b)	(4) Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-11	\$ 1,538,403	\$ 2,960,649	\$ 1,422,246		52.0%
01-01-13	2,103,239	3,644,419	1,541,180		57.7%
01-01-15	2,964,922	4,281,990	1,317,068		69.2%

Note: The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses at 130 percent of market value. The market value of the plan's assets at 01-01-13, has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The net effect over long periods of time is to have less variance in contribution levels from year to year.

**OHIO 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.

**OHIO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)**

**SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES**

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 307,193	100.0%
2012	315,105	100.0%
2013	330,045	100.0%
2014	343,918	100.0%
2015	371,846	100.0%
2016	393,270	100.0%

OHIO 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	7 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0%

**OHIO 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

Mr. Thomas R. Beatty
Chairman, Board of Township Supervisors

Mr. James R. Reid
Township Supervisor

Mr. Herbert J. Hartle
Township Supervisor

Mr. John L. Sullivan, Jr.
Township Manager

Ms. Marsha E. Grom
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.