

LIMITED PROCEDURES ENGAGEMENT

Allegheny Township Police Pension Plan Westmoreland County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

January 2019



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
Allegheny Township
Westmoreland County
Leechburg, PA 15656

We conducted a Limited Procedures Engagement (LPE) of the Allegheny Township Police Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether retirement benefits calculated for plan members who retired during the engagement period 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.

- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016 and 2018, 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.
- 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Allegheny Township Police Pension Plan was not being 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Incorrect Pension Benefit Calculation

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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 Allegheny Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

January 11, 2019



EUGENE A. DEPASQUALE
Auditor General

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ALLEGHENY TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township overstated police payroll by \$41,341 and failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$49,552 on the Certification Form AG 385 filed in 2018. 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 plans.

The township's state aid allocation for 2018 was based on unit value in the amount of \$140,532 (30 units at \$4,684.39 each). However, based on the corrected information, the township was entitled to an allocation of \$135,120 based on their plans' total pension costs. Therefore, the township received an overpayment of state aid in the amount of \$5,412 in 2018.

Recommendation: We recommend that the overpayment of state aid, in the amount of \$5,412, plus interest, 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, 321 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 two 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.

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

Auditor's Conclusion: The township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement.

ALLEGHENY TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Pension Benefit Calculation

Condition: A member of the pension plan who entered the Deferred Retirement Option Plan (DROP) on July 1, 2017, had his pension benefit incorrectly determined because municipal officials failed to accurately calculate the member's final monthly average salary in accordance with the plan's governing document.

Criteria: Ordinance No. 02-2016, at Section 4.02, states, in part:

Normal Retirement Benefit - Each participant who shall become entitled to a benefit . . . shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant's Final Monthly Average Salary. . .

Also, Ordinance No. 02-2012, at Section 1.19, states, in part:

Final Monthly Average Salary – The average monthly salary earned by the Participant and paid by the Employer during the Final thirty-six (36) months immediately preceding termination of active Employment. . . .

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan's governing document.

Effect: The member is receiving a lesser benefit than what is authorized by the plan's governing document.

Recommendation: We recommend that municipal officials adjust the retiree's pension benefit in accordance with the provisions contained in the plan's governing document.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement.

ALLEGHENY TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 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
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability ¹		
Service cost	\$ -	\$ 103,461
Interest	-	238,176
Benefit payments, including refunds of member contributions	-	(31,075)
Net Change in Total Pension Liability	<u>-</u>	<u>310,562</u>
Total Pension Liability – Beginning	-	3,196,993
Total Pension Liability – Ending (a)	<u>\$ 3,196,993</u>	<u>\$ 3,507,555</u>
Plan Fiduciary Net Position		
Net investment income	\$ 236,303	\$ (26,385)
Benefit payments, including refunds of member contributions	(31,075)	(31,075)
Administrative expense	(16,213)	(10,083)
Net Change in Plan Fiduciary Net Position	<u>189,015</u>	<u>(67,543)</u>
Plan Fiduciary Net Position – Beginning	4,254,858	4,443,873
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,443,873</u>	<u>\$ 4,376,330</u>
Net Pension Liability – Ending (a-b)	<u>\$ (1,246,880)</u>	<u>\$ (868,775)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	139.0%	124.8%
Estimated Covered Employee Payroll	\$ 576,791	\$ 626,607
Net Pension Liability as a Percentage of Covered Employee Payroll	(216.2%)	(138.6%)

¹ Due to GASB Statement No. 67, Financial Reporting for Pension Plans, being implemented only recently, the pension liability information was not provided for years prior to 2015.

ALLEGHENY TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 108,634	\$ 125,646
Interest	259,694	296,676
Changes in benefit terms	-	204,732
Differences between expected and actual experience	-	57,169
Changes of assumptions	-	84,493
Benefit payments, including refunds of member contributions	(69,633)	(81,490)
Net Change in Total Pension Liability	<u>298,695</u>	<u>687,226</u>
Total Pension Liability – Beginning	3,507,555	3,806,250
Total Pension Liability – Ending (a)	<u>\$ 3,806,250</u>	<u>\$ 4,493,476</u>
 Plan Fiduciary Net Position		
Net investment income	\$ 254,976	\$ 712,932
Benefit payments, including refunds of member contributions	(69,633)	(81,490)
Administrative expense	(18,052)	(14,656)
Net Change in Plan Fiduciary Net Position	<u>167,291</u>	<u>616,786</u>
Plan Fiduciary Net Position – Beginning	4,376,330	4,543,621
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,543,621</u>	<u>\$ 5,160,407</u>
 Net Pension Liability – Ending (a-b)	<u>\$ (737,371)</u>	<u>\$ (666,931)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	119.4%	114.8%
 Estimated Covered Employee Payroll	\$ 699,404	\$ 714,737
 Net Pension Liability as a Percentage of Covered Employee Payroll	(105.4%)	(93.3%)

ALLEGHENY 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 as of December 31, 2015 and 2016, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/15	\$ (430,400)	\$ (868,775)	\$ (1,261,928)
Net Pension Liability – 12/31/16	\$ (309,898)	\$ (737,371)	\$ (1,155,545)

In addition, the following presents the net pension liability of the township as of December 31, 2017, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/17	\$ (60,350)	\$ (666,931)	\$ (1,164,643)

ALLEGHENY TOWNSHIP POLICE 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
2008	\$ -	\$ -	\$ -	\$ 480,594	0.00%
2009	-	-	-	-	-
2010	-	-	-	535,948	0.00%
2011	32,245	32,245	-	-	-
2012	-	-	-	573,178	0.00%
2013	-	-	-	-	-
2014	-	-	-	576,791	0.00%
2015	-	-	-	626,607	0.00%
2016	-	-	-	699,404	0.00%
2017	-	-	-	714,737	0.00%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

SCHEDULE OF INVESTMENT RETURNS

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

2017	15.75%
2016	5.87%
2015	(0.60%)
2014	5.58%

ALLEGHENY 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, 2013, 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)
01-01-13	\$ 3,736,717	\$ 2,746,248	\$ (990,469)	136.1%
01-01-15	4,443,873	3,196,993	(1,246,880)	139.0%
01-01-17	4,543,621	4,152,644	(390,977)	109.4%

ALLEGHENY 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.

ALLEGHENY 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, 2017
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 *	7.0%
Projected salary increases *	4.75%
Cost-of-living adjustments	2.75%

* Includes inflation at 2.75%

ALLEGHENY TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Kathryn Starr
Chairperson, Board of Township Supervisors

Mr. Gregory A. Primm
Township Manager

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.