

LIMITED PROCEDURES ENGAGEMENT

East Penn Township Police Pension Plan Carbon County, Pennsylvania For the Period January 1, 2015 to November 7, 2016

August 2019



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
East Penn Township
Carbon County
Lehighton, PA 18235

We conducted a Limited Procedures Engagement (LPE) of the former East Penn Township Police Pension Plan for the period January 1, 2015 to November 7, 2016 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 municipal officials took appropriate corrective action to address the findings contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the former East Penn 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 finding further discussed later in this report:

Finding – Failure To Utilize Funds Distributed Under The General Municipal Pension System State Aid Program For Their Intended Purpose

On July 5, 2016, the township disbanded the East Penn Township Police Department as of June 6, 2016. As a result of the disbandment and there not being police officers employed by the township or currently receiving and/or eligible to receive future benefits from the police pension plan, the Board of Supervisors adopted Resolution No. 2016-21 effectively terminating the township's former police pension plan as of November 7, 2016. The township liquidated the remaining accumulated monetary assets of the former police pension plan on March 1, 2018. This report represents the final engagement of the former police 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 East Penn 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.

July 17, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Findings	1
Finding and Recommendation:	
Finding – Failure To Utilize Funds Distributed Under The General Municipal Pension System State Aid Program For Their Intended Purpose	2
Supplementary Information	4
Report Distribution List	10

EAST PENN TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendations

East Penn Township has complied with the prior LPE report recommendations concerning the following:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

On April 4, 2016, the township deposited \$8,129 into the police pension plan, representing the outstanding MMO due the plan along with applicable interest; and

- Failure To Deposit State Aid Into An Eligible Pension Plan

The township deposited \$3,767, into the township's non-uniformed pension plan on April 4, 2016 representing the outstanding state aid and applicable interest.

EAST PENN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Utilize Funds Distributed Under The General Municipal Pension System State Aid Program For Their Intended Purpose

Condition: On July 5, 2016, the township disbanded its police department effective June 6, 2016. As a result of the disbandment and there not being a police officer employed by the township or receiving or eligible to receive any future benefits from the police pension plan since the date of disbandment, the Board of Township Supervisors enacted Resolution No. 2016-21 thereby terminating the former police pension plan as of November 7, 2016. The township subsequently liquidated the accumulated assets of the former pension plan on March 1, 2018 and deposited these funds into a restricted account maintained by the township, which totaled approximately \$104,013, as of the date of this report. However, the township failed to determine the unused portion of state aid previously distributed under the general municipal pension system state aid program and utilize these funds for their statutory purpose.

Criteria: Municipalities that have received state aid allocations pursuant to Act 120, and which do not employ at least one full-time paid police officer, must return unused funds to the Commonwealth pursuant to the provisions of Act 120, at 72 P.S. 2263.3, which states, in part:

All monies distributed under the terms hereof, that are not used for the purposes set forth herein within two years after receipt thereof by the treasurers of several cities, boroughs, towns and townships, shall be returned to the General Fund for distribution...

In addition, Act 205, at Section 402(g), directs that:

Any general municipal pension system State aid received by a municipality shall, only be used to defray the cost of the pension plan or pension plans maintained by the municipality...

Furthermore, Section 402(j) authorizes the Auditor General to administer the General Municipal Pension State Aid Program. This administrative power necessarily extends to ensuring that state aid is both allocated and used in accordance with the act.

Cause: Plan officials failed to implement adequate procedures to determine the amount of unused state aid intended for pension purposes pursuant to the aforementioned criteria prior to liquidating the assets of its former police pension plan.

Effect: Funds distributed under the General Municipal Pension System State Aid Program were not used for their intended statutory purpose or returned to the Commonwealth for redistribution to defray other eligible municipalities' pension plan costs.

EAST PENN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued):

It was noted that the township, after funding the minimum required obligation of its defined benefit non-uniformed pension plan, deposited a portion of its 2016 state aid allocation (\$5,647) into the former police pension plan to fund its minimum required obligation for 2016, which had been determined prior to making the formal election to terminate the plan. However, since there were no remaining pension costs or liabilities associated with its former police pension plan after the effective date of termination, it is this department's opinion that, since the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality and although it is inappropriate to use state aid in one year to offset pension costs in other years, the township does have the option to re-allocate the 2016 state aid to its other defined benefit pension plan.

Recommendation: We recommend that municipal officials re-allocate the \$5,647 of state aid allocated to its former police pension plan during 2016, after its effective date of termination, to the township's defined benefit non-uniformed pension plan.

In addition, we recommend that township officials, after accounting for any municipal contributions previously made to fund the former police pension plan, either redistribute the remaining unused state aid funds to its non-uniformed defined benefit pension plan or return these funds to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

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 this report.

EAST PENN TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 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 YEAR ENDED DECEMBER 31, 2015

Total Pension Liability		
Normal cost	\$	11,875
Interest		2,817
Net Change in Total Pension Liability		14,692
Total Pension Liability – Beginning		62,601
Total Pension Liability – Ending (a)	\$	77,293
Plan Fiduciary Net Position		
Contributions – employer	\$	8,186
Expected investment income		3,642
Additional investment income		(1,532)
Administrative expense		(1,070)
Net Change in Plan Fiduciary Net Position		9,226
Plan Fiduciary Net Position – Beginning		77,376
Plan Fiduciary Net Position – Ending (b)	\$	86,602
Net Pension Liability – Ending (a-b)	\$	(9,309)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		112.04%
Estimated Covered Employee Payroll	\$	78,051
Net Pension Liability as a Percentage of Covered Employee Payroll		(11.93%)

EAST PENN 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, calculated using the discount rate of 4.5%, 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 (3.5%)	Current Discount Rate (4.5%)	1% Increase (5.5%)
Net Pension Liability	\$ 13,222	\$ (9,309)	\$ (26,891)

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
2006	\$ 4,317	\$ 4,317	\$ -	\$ 82,201	5.25%
2007	8,154	8,154	-	-	
2008	8,395	8,395	-	40,174	20.90%
2009	3,597	4,845	(1,248)	-	
2010	5,887	5,907	(20)	39,393	15.00%
2011	4,098	4,098	-	-	
2012	6,200	6,955	(755)	77,910	8.93%
2013	6,776	7,752	(976)	-	
2014	8,391	8,391	-	78,993	10.62%
2015	8,186	8,186	-	78,051	10.49%

* 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 even years prior to 2014.

EAST PENN TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2015	2.61%
2014	2.78%
2013	2.82%
2012	2.80%
2011	4.44%
2010	3.46%
2009	4.25%
2008	4.00%

EAST PENN 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	\$ 59,330	\$ 32,724	\$ (26,606)	181.3%
01-01-15	77,376	62,601	(14,775)	123.6%
01-01-17	100,875	-	(100,875)	N/A

The township enacted Resolution No. 2016-21 terminating the pension plan effective June 6, 2016 without any current and/or future liabilities. Assets remained in the plan until March 1, 2018, when the account balance was liquidated and transferred to a restricted checking account maintained by and in the name of the township, where the funds remain as of the date of this report (refer to the finding and recommendation contained in this report).

EAST PENN 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.

EAST PENN 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	4.5%
Projected salary increases	3.5%

EAST PENN TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. William G. Schwab
Chairman, Board of Township Supervisors

Ms. Jillyan Sterling
Township Secretary

Mr. William Donovan
Township Treasurer

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.