

COMPLIANCE AUDIT

Forks Township Non-Uniformed Pension Plan Northampton County, Pennsylvania For the Period January 1, 2015 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
Forks Township
Northampton County
Easton, PA 18040

We have conducted a compliance audit of the Forks Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 seven of the plan members who retired during the current audit 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.
- We determined 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

Forks 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.

The Forks Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Forks 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Forks 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 – Partial Compliance With Prior Audit Recommendation - Incorrect
Data On Certification Form AG 385 Resulting In A Net Overpayment
Of State Aid

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Forks 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.

January 10, 2019


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 Forks 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Forks Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 340, as amended, adopted pursuant to Act 15, for members hired prior to January 1, 2015. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established September 18, 1986. Active members are required to contribute 7 percent of compensation to the plan; however, member contributions were eliminated during the audit period. As of December 31, 2017, the plan had 24 active members, 3 terminated members' eligible for vested benefits in the future, and 15 retirees receiving pension benefits.

Additionally, the Forks Township Non-Uniformed Pension Plan adopted a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 340, as amended, adopted pursuant to Act 15, for members hired on or after January 1, 2015. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established September 17, 2015. Active members are required to contribute to the plan. The municipality is required to contribute five percent of compensation. As of December 31, 2017, the plan had four active members.

BACKGROUND – (Continued)

As of December 31, 2017 selected defined benefit plan provisions are as follows:

Eligibility Requirements:

Normal Retirement	Available upon attainment of age 62.
Early Retirement	A voluntary early retirement is available after 24 years of service. An involuntary early retirement is available after 8 years of service. Unreduced early retirement from 1/1/2017 to 6/30/17 if age 56 with 10 years of service.
Vesting	A member is 100% vested after 10 years of service.

Retirement Benefit:

Benefit equals 1.5% times credited service times Final Average Salary (FAS), but in no event is the basic benefit greater than 52.5% of FAS. FAS based upon highest 3 years annualized salary.

Survivor Benefit:

If eligible to retire at the time of death, beneficiary receives present value of accrued benefit. At retirement, member may select a survivor benefit.

Disability Benefit:

None

FORKS TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Forks Township has partially complied with the prior audit recommendation concerning the following:

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

During the current audit period, the township reimbursed \$13,244 to the Commonwealth for the overpayment of state aid in 2013; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2017 and 2018 as further discussed in the Finding and Recommendation section of this report.

FORKS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior audit recommendation by reimbursing the Commonwealth for the overpayment of state aid received in 2013; however, during the current audit period, the township failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2017 and 2018.

The township failed to certify 1 eligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2017. In addition, the township certified 2 ineligible police officers (4 units) and 5 ineligible non-uniformed employees (5 units) on the Certification Form AG 385 filed in 2018. The data contained on these certification forms 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 again 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. 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>Type of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2017	Non-Uniformed	(1)	\$ 4,588	\$ (4,588)
2018	Police	4	\$ 4,684	\$ 18,736
	Non-Uniformed	5	\$ 4,684	\$ 23,420
Net Overpayment of State Aid				<u>\$ 37,568</u>

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

FORKS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$37,568, be returned to the Commonwealth from the township's general fund. 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.

In addition, if the reimbursement to the Commonwealth is made from 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: It is the intention of the township to return the overpayment in an amount determined by the Department of the Auditor General and make an attempt to submit correct data suitable to prevent future overpayments.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. We note that it is the municipality's responsibility to determine the amount of interest due on the state aid overpayment, as described in the Recommendation above, and submit the interest calculation along with the check. Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

FORKS TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$37,568. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

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

The supplementary information contained on pages 7 through 9 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		
Service cost	\$ 140,110	\$ 137,982
Interest	212,937	240,811
Difference between expected and actual experience	249,674	-
Change of assumptions	-	4,268
Benefit payments, including refunds of member contributions	<u>(83,514)</u>	<u>(104,336)</u>
Net Change in Total Pension Liability	519,207	278,725
Total Pension Liability – Beginning	<u>3,772,661</u>	<u>4,291,868</u>
Total Pension Liability – Ending (a)	<u><u>\$ 4,291,868</u></u>	<u><u>\$ 4,570,593</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 78,094	\$ 135,626
Contributions – PMRS assessment	-	840
Contributions – member	-	-
PMRS investment income	197,504	201,784
Market Value investment income	4,662	(199,420)
Benefit payments, including refunds of member contributions	(83,514)	(104,336)
PMRS Administrative expense	(820)	(840)
Additional administrative expense	<u>(7,574)</u>	<u>(8,412)</u>
Net Change in Plan Fiduciary Net Position	188,352	25,242
Plan Fiduciary Net Position – Beginning	<u>3,591,102</u>	<u>3,779,454</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 3,779,454</u></u>	<u><u>\$ 3,804,696</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 512,414</u></u>	<u><u>\$ 765,897</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.06%	83.24%
Estimated Covered Employee Payroll	\$ 1,825,645	\$ 1,809,796
Net Pension Liability as a Percentage of Covered Employee Payroll	28.07%	42.32%

* 2014 employer contributions includes actuarial surplus used for disability insurance premiums of \$820.

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

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

Total Pension Liability	<u>2016</u>	<u>2017</u>
Service cost	\$ 129,953	\$ 123,836
Interest	255,408	276,143
Change of benefit terms	-	-
Difference between expected and actual experience	238,119	-
Changes of assumptions	168,127	-
Benefit payments, including refunds of member contributions	(115,057)	(225,115)
Net Change in Total Pension Liability	<u>676,550</u>	<u>174,864</u>
Total Pension Liability – Beginning	4,570,593	5,247,143
Total Pension Liability – Ending (a)	<u>\$ 5,247,143</u>	<u>\$ 5,422,007</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 138,926	\$ 171,301
Contributions – PMRS assessment	840	860
PMRS investment income	223,052	219,257
Market value investment income	114,085	434,788
Benefit payments, including refunds of member contributions	(115,057)	(225,115)
PMRS Administrative expense	(820)	(860)
Additional administrative expenses	(10,928)	(10,083)
Net Change in Plan Fiduciary Net Position	<u>350,098</u>	<u>590,148</u>
Plan Fiduciary Net Position – Beginning	3,804,696	4,154,794
Plan Fiduciary Net Position – Ending (b)	<u>\$ 4,154,794</u>	<u>\$ 4,744,942</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,092,349</u>	<u>\$ 677,065</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.18%	87.51%
Estimated Covered Employee Payroll	\$ 1,881,863	\$ 1,673,073
Net Pension Liability as a Percentage of Covered Employee Payroll	58.05%	40.47%

FORKS 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability – 12/31/14	\$ 1,111,244	\$ 512,414	\$ 5,865
Net Pension Liability – 12/31/15	\$ 1,419,616	\$ 765,897	\$ 216,434

The following presents the net pension liability of the township as of December 31, 2016 and 2017, calculated using the discount rate of 5.25%, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 1,844,196	\$ 1,092,349	\$ 461,803
Net Pension Liability – 12/31/17	\$ 1,453,968	\$ 677,065	\$ 25,506

FORKS 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, 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	\$ 3,440,770	\$ 3,515,922	\$ 75,152	97.9%
01-01-15	3,850,006	4,291,868	441,862	89.7%
01-01-17	4,433,089	5,247,143	814,054	84.5%

FORKS 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.

FORKS 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
2012	\$ 78,577	100.0%
2013	76,066	100.0%
2014	77,274	100.0%
2015	136,466	100.0%
2016	139,746	100.0%
2017	172,161	100.0%

FORKS 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

FORKS TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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