

LIMITED PROCEDURES ENGAGEMENT

Liberty Township Police Pension Plan Adams County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

August 2017



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
Liberty Township
Adams County
Fairfield, PA 17320

We conducted a Limited Procedures Engagement (LPE) of the Liberty Township Police Pension Plan for the period January 1, 2013 to December 31, 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 finding contained in our prior audit 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 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, 2011, 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, 2012, 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.
- 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 Liberty 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 Deposit The Full Amount Of State Aid Into The Pension Plan

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 Liberty 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.

June 1, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Finding	1
Finding and Recommendation:	
Finding – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan.....	2
Supplementary Information	3
Report Distribution List	9

LIBERTY TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Liberty Township has complied with the prior audit recommendation concerning the following:

- Restated Plan Document Not Adopted By Resolution

Township enacted Ordinance No. 01-2017, which adopted the restated plan document.

LIBERTY TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: The municipality did not deposit the full amount of its 2016 state aid allocation into the pension plan. The municipality received its 2016 state aid allocation in the amount of \$15,410 on September 27, 2016; however, only \$15,338 was deposited into an eligible pension plan. Since the township paid the contribution due to the defined contribution non-uniformed pension plan, the balance of the 2016 state aid allocation must be deposited into the police pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the entire 2016 state aid allocation was deposited timely in accordance with Act 205 requirements.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the township’s remaining state aid allocation of \$72, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into the pension plan. A copy of the interest calculation must be maintained by the township for examination during our next engagement of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid allocations are fully deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

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

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

LIBERTY TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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	\$ 13,233	\$ 11,818
Interest	13,923	11,962
Difference between expected and actual experience	-	(60,142)
Changes of assumptions	-	4,223
Net Change in Total Pension Liability	<u>27,156</u>	<u>(32,139)</u>
Total Pension Liability – Beginning	200,970	228,126
Total Pension Liability - Ending (a)	<u>\$ 228,126</u>	<u>\$ 195,987</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 15,133	\$ 16,087
Net investment income	17,992	(163)
Administrative expense	(5,750)	(6,250)
Net Change in Plan Fiduciary Net Position	<u>27,375</u>	<u>9,674</u>
Plan Fiduciary Net Position – Beginning	275,629	303,004
Plan Fiduciary Net Position - Ending (b)	<u>\$ 303,004</u>	<u>\$ 312,678</u>
 Net Pension Liability - Ending (a-b)	<u>\$ (74,878)</u>	<u>\$ (116,691)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	132.8%	159.5%
 Estimated Covered Employee Payroll	\$ 52,738	\$ 56,950
 Net Pension Liability as a Percentage of Covered Employee Payroll	(142.0%)	(204.9%)

LIBERTY 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, 2014 and 2015, calculated using the discount rate of 6.5%, 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 (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability – 12/31/14	\$ (39,431)	\$ (74,878)	\$ (104,211)
Net Pension Liability – 12/31/15	\$ (90,847)	\$ (116,691)	\$ (138,301)

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	\$ 11,909	\$ 8,031	\$ 3,878	*	N/A
2009	14,698	14,698	-	\$ 43,264	34.0%
2010	14,248	14,700	(452)	46,369	31.7%
2011	14,779	12,521	2,258	48,672	25.7%
2012	12,521	12,521	-	50,619	24.7%
2013	12,980	23,698	(10,718)	52,644	45.0%
2014	15,133	15,133	-	52,738	28.7%
2015	16,087	16,087	-	56,950	28.2%
2016	8,396	8,396	-	*	N/A

* 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 2008. In addition, due to the timing of this engagement, covered-employee payroll for 2016 was not provided in this schedule.

LIBERTY TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2015	(0.01%)
2014	6.61%

LIBERTY 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, 2011, 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)
01-01-11	\$ 179,112	\$ 132,174	\$ (46,938)	135.5%
01-01-13	201,721	176,101	(25,620)	114.5%
01-01-15	274,119	172,207	(101,912)	159.2%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market values of assets. 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.

LIBERTY 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.

LIBERTY 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, 2015
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	5-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	5.0%
Cost-of-living adjustments	Up to 3% per year, with a maximum of 130% of the original benefit.

LIBERTY 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. John Bostek
Chairman, Board of Township Supervisors

Ms. Wendy Peck
Chief Administrative Officer

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.