

# COMPLIANCE AUDIT

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## Lower Allen Township Non-Uniformed Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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June 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 Commissioners  
Lower Allen Township  
Cumberland County  
Camp Hill, PA 17011

We have conducted a compliance audit of the Lower Allen Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018. 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 retirement benefits calculated for all 4 of the plan members who retired during the current audit period and elected a monthly form of retirement benefit and both of the plan members who terminated employment and elected a lump-sum form of pension benefit 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for both of the plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined 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.
- 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.
- We determined whether the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation for pension obligation bonds issued during the current audit period and through the completion of our fieldwork procedures.

Lower Allen Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, 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 Lower Allen 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 Lower Allen 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.

The contents of this report were discussed with officials of Lower Allen 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.

June 14, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information .....	3
Report Distribution List .....	10

## **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 Lower Allen 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 Lower Allen Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by Ordinance 2015-01 and a separately executed agreement with the plan's custodian, as amended. The plan was established January 1, 1967. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 48 active members, 17 terminated members eligible for vested benefits in the future, and 23 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 65.
Early Retirement	Age 55 with 12 years of service.
Vesting	20% vesting available after three years of service plus 20% for each year thereafter, up to 100%.

### Retirement Benefit:

Benefit equals 45% of average compensation times accrued benefit adjustment times short service percentage, plus the benefit which could be provided by the participant's transfer value. Average compensation is the monthly average of the 5 consecutive years out of the latest 10 years prior to normal retirement date which gives the highest average.

### Survivor Benefit:

If the participant is fully or partially vested, an accrued benefit payable immediately to spouse equal to amount that would have been paid had employment terminated on date of death and participant had survived to earliest retirement age with a 50% survivor annuity and then died the next day.

### Disability Benefit:

A single sum payment equal to the participant's transfer value.

LOWER ALLEN TOWNSHIP NON-UNIFORMED 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		
Service cost	\$ 150,999	\$ 153,358
Interest	368,256	389,873
Difference between expected and actual experience	-	(181,849)
Changes of assumptions	-	123,682
Benefit payments, including refunds of member contributions	(194,844)	(174,171)
Net Change in Total Pension Liability	<u>324,411</u>	<u>310,893</u>
Total Pension Liability – Beginning	4,698,108	5,022,519
Total Pension Liability – Ending (a)	<u>\$ 5,022,519</u>	<u>\$ 5,333,412</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 10,737	\$ -
Contributions – state aid	146,884	166,845
Net investment income	278,147	(36,979)
Benefit payments, including refunds of member contributions	(194,844)	(174,171)
Administrative expense	(10,294)	(12,681)
Net Change in Plan Fiduciary Net Position	<u>230,630</u>	<u>(56,986)</u>
Plan Fiduciary Net Position – Beginning	4,990,638	5,221,268
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,221,268</u>	<u>\$ 5,164,282</u>
Net Pension Liability – Ending (a-b)	<u>\$ (198,749)</u>	<u>\$ 169,130</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.96%	96.83%
Estimated Covered Employee Payroll	\$ 2,003,231	\$ 2,124,603
Net Pension Liability as a Percentage of Covered Employee Payroll	(9.92%)	7.96%



LOWER ALLEN TOWNSHIP NON-UNIFORMED 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	\$ 160,643	\$ 193,735
Interest	418,591	451,572
Difference between expected and actual experience	-	(5,269)
Changes of assumptions	-	18,238
Benefit payments, including refunds of member contributions	(185,753)	(213,731)
Net Change in Total Pension Liability	<u>393,481</u>	<u>444,545</u>
Total Pension Liability – Beginning	5,333,412	5,726,893
Total Pension Liability – Ending (a)	<u>\$ 5,726,893</u>	<u>\$ 6,171,438</u>
Plan Fiduciary Net Position		
Contributions – state aid	\$ 149,491	\$ 162,453
Net investment income	308,365	729,547
Benefit payments, including refunds of member contributions	(185,753)	(213,731)
Administrative expense	(9,603)	(5,619)
Net Change in Plan Fiduciary Net Position	<u>262,500</u>	<u>672,650</u>
Plan Fiduciary Net Position – Beginning	5,164,282	5,426,782
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,426,782</u>	<u>\$ 6,099,432</u>
Net Pension Liability – Ending (a-b)	<u>\$ 300,111</u>	<u>\$ 72,006</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.76%	98.83%
Estimated Covered Employee Payroll	\$ 2,204,534	\$ 2,373,294
Net Pension Liability as a Percentage of Covered Employee Payroll	13.61%	3.03%

LOWER ALLEN 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, 2015, 2016, and 2017, calculated using the discount rate of 7.75%, 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/14	\$ 460,418	\$ (198,749)	\$ (761,616)
Net Pension Liability – 12/31/15	\$ 859,193	\$ 169,130	\$ (418,802)
Net Pension Liability – 12/31/16	\$ 1,029,858	\$ 300,111	\$ (322,636)
Net Pension Liability – 12/31/17	\$ 844,332	\$ 72,006	\$ (588,663)

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*
2009	\$ 137,946	\$ 137,946	\$ -	\$1,869,347	7.38%
2010	137,213	152,870	(15,657)	1,859,976	8.22%
2011	214,469	214,469	-	1,775,396	12.08%
2012	197,807	197,807	-	1,828,468	10.82%
2013	215,644	215,649	(5)	1,872,545	11.52%
2014	157,621	157,621	-	2,003,231	7.87%
2015	166,845	166,845	-	2,124,603	7.85%
2016	149,491	149,491	-	2,204,534	6.78%
2017	162,452	162,453	(1)	2,373,294	6.85%
2018	246,946	246,946	-		

\* Due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

LOWER ALLEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.37%
2016	6.01%
2015	(0.72%)
2014	5.64%

LOWER ALLEN 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	\$ 3,464,965	\$ 4,402,502	\$ 937,537	78.7%
01-01-15	5,221,268	4,964,352	(256,916)	105.2%
01-01-17	5,426,782	5,739,862	313,080	94.5%

LOWER ALLEN 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.

LOWER ALLEN 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	18 years
Asset valuation method	Fair value.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	None assumed.

LOWER ALLEN TOWNSHIP NON-UNIFORMED PENSION PLAN  
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This report was initially distributed to the following:

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