

# COMPLIANCE AUDIT

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

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May 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  
Lower Paxton Township  
Dauphin County  
Harrisburg, PA 17109

We have conducted a compliance audit of the Lower Paxton 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 whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for 6 of the 14 plan members<sup>1</sup> 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 retirement benefits calculated for 3 of the 6 plan members<sup>2</sup> 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- 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 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.

Lower Paxton 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.

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<sup>1</sup> We selected plan members randomly from the population of plan members who retired during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

<sup>2</sup> We selected plan members randomly from the population of plan members who elected to vest during the current audit period in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.


Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Paxton 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 Paxton 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 Paxton 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.

May 15, 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 Lower Paxton 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 Paxton Township Non-Uniformed Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 12-09, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1972. Active members in the Clerk and Custodians Union are required to contribute 3.5 percent of compensation to the plan. Active members in the Public Works Union are required to contribute 3.75 percent of compensation to the plan. Active members in the Sewer Authority Union are required to contribute 3.5 percent of compensation to the plan. Upon completion of 27 years of service, a member is no longer required to contribute to the plan. As of December 31, 2018, the plan had 83 active members, 10 terminated members eligible for vested benefits in the future, and 38 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	Sewer Authority Unit Employees: Age 65 and 10 years of service. Township Unit Employees, except Clerks and Custodians employees hired on or after 1/1/2013 and Public Works employees hired on or after 1/1/2012: Age 65 and 10 years of service. Township Unit Employees, except Clerks and Custodians employees hired on or before 1/1/2013 and Public Works employees hired on or before 1/1/2012: the earliest of Age 65 and 10 years of service or Age 60 and 15 years of service.
Early Retirement	Sewer Authority Unit Employees: Age 55 and 10 years of service. Township Unit Employees, except Clerks and Custodians employees hired on or after 1/1/2013 and Public Works employees hired on or after 1/1/2012: Age 60 and 15 years of service. Township Unit Employees, except Clerks and Custodians employees hired on or before 1/1/2013 and Public Works employees hired on or before 1/1/2012: Age 55 and 15 years of service.
Vesting	100% after 9 years of service. Sewer Authority Unit Employees: 30% after 3 years of service, increasing by 10% each year up to 100% after 10 years of service.

### Retirement Benefit:

A monthly benefit equal to 2.0% of Final Average Monthly Compensation averaged over the final 36 month period prior to retirement multiplied by Years of Service (maximum of 27 years).

### Survivor Benefit:

Before Vesting	Refund of member contributions plus interest.
After Vesting But Before Retirement	The surviving spouse will receive the survivor portion of the Participant's Accrued Benefit after reduction to an actuarial equivalent joint and 50% survivor benefit and reduction for commencement prior to Normal retirement, payable at Early Retirement.

## **BACKGROUND – (Continued)**

### Survivor Benefit - (Continued):

After Retirement Eligibility	The normal form of payment is a life annuity. At retirement, the participant may select an optional form of benefit payment that is an actuarial equivalent to the normal form.
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### Service and Non-service Related Disability Benefit:

For Sewer Authority Unit Employees, upon total and permanent disablement or qualification for Social Security disability benefits, the Accrued Benefit at date of disablement, actuarially reduced for commencement prior to Normal Retirement.



LOWER PAXTON TOWNSHIP NON-UNIFORMED 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 YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 468,852	\$ 459,270	\$ 431,365	\$ 455,943	\$ 451,165
Interest	1,161,316	1,210,063	1,291,194	1,378,467	1,456,600
Change of benefit terms	-	-	-	500,267	-
Difference between expected and actual experience	-	(524,611)	-	(885,043)	-
Changes of assumptions	-	-	-	1,127,497	-
Benefit payments, including refunds of member contributions	(367,468)	(481,740)	(564,472)	(650,761)	(778,275)
Net Change in Total Pension Liability	1,262,700	662,982	1,158,087	1,926,370	1,129,490
Total Pension Liability – Beginning	15,729,825	16,992,525	17,655,507	18,813,594	20,739,964
Total Pension Liability – Ending (a)	<u>\$ 16,992,525</u>	<u>\$ 17,655,507</u>	<u>\$ 18,813,594</u>	<u>\$ 20,739,964</u>	<u>\$ 21,869,454</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 728,949	\$ 789,950	\$ 674,462	\$ 696,477	\$ 683,408
Contributions – member	130,676	130,169	138,797	139,772	148,881
Net investment income	830,921	25,833	846,552	2,246,805	(741,030)
Benefit payments, including refunds of member contributions	(367,468)	(481,740)	(564,472)	(650,761)	(778,275)
Administrative expense	(4,925)	(8,162)	(5,555)	(3,800)	(11,556)
Net Change in Plan Fiduciary Net Position	1,318,153	456,050	1,089,784	2,428,493	(698,572)
Plan Fiduciary Net Position – Beginning	12,784,593	14,102,746	14,558,796	15,648,580	18,077,073
Plan Fiduciary Net Position – Ending (b)	<u>\$ 14,102,746</u>	<u>\$ 14,558,796</u>	<u>\$ 15,648,580</u>	<u>\$ 18,077,073</u>	<u>\$ 17,378,501</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,889,779</u>	<u>\$ 3,096,711</u>	<u>\$ 3,165,014</u>	<u>\$ 2,662,891</u>	<u>\$ 4,490,953</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.0%	82.5%	83.2%	87.2%	79.5%
Estimated Covered Employee Payroll	\$ 4,636,453	\$ 4,476,046	\$ 4,753,121	\$ 4,895,449	\$ 4,916,287
Net Pension Liability as a Percentage of Covered Employee Payroll	62.3%	69.2%	66.6%	54.4%	91.3%

LOWER PAXTON 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, 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	\$ 5,121,322	\$ 3,096,711	\$ 1,373,214
Net Pension Liability – 12/31/16	\$ 5,257,284	\$ 3,165,014	\$ 1,383,020

In addition, the following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 7.00%, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability – 12/31/17	\$ 5,140,229	\$ 2,662,891	\$ 576,427
Net Pension Liability – 12/31/18	\$ 7,037,186	\$ 4,490,953	\$ 2,345,299

LOWER PAXTON TOWNSHIP NON-UNIFORMED 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
2009	\$ 391,295	\$ 391,295	\$ -		
2010	332,172	332,172	-	\$4,150,860	8.0%
2011	478,621	470,100	8,521	-	
2012	525,113	476,490	48,623	4,468,061	10.7%
2013	708,378	708,378	-	-	
2014	728,949	728,949	-	4,636,453	15.7%
2015	789,950	789,950	-	4,476,046	17.6%
2016	674,462	674,462	-	4,753,121	14.2%
2017	696,477	696,477	-	4,895,449	14.2%
2018	683,408	683,408	-	4,916,287	13.9%

\* 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.

For 2011 and 2012, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.13%)
2017	14.47%
2016	5.83%
2015	0.18%
2014	6.49%

LOWER PAXTON 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	\$ 10,674,712	\$ 14,531,159	\$ 3,856,447	73.5%
01-01-15	13,672,947	16,467,914	2,794,967	83.0%
01-01-17	16,327,130	19,556,315	3,229,185	83.5%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period subject to a corridor between 80 to 120 percent of the market value 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.

LOWER PAXTON 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 PAXTON 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	10 years
Asset valuation method	4-year smoothing, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases	4.75%

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

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