

COMPLIANCE AUDIT

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

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 Swatara Township
Dauphin County
Middletown, PA 17057

We have conducted a compliance audit of the Lower Swatara 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and 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 all five 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 also determined whether retirement benefits calculated for all three 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 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.

Lower Swatara 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 Swatara 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 Swatara 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Swatara 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 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 Lower Swatara 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 Swatara Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 511, as amended. The plan was established January 1, 1979. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 18 active members, 3 terminated members eligible for vested benefits in the future, and 17 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 62, or when age plus years of service (minimum 20 years) equals 75, if earlier.
Early Retirement	Pre 2/11/1987 employees – 20 years or 8 years if involuntarily terminated.
Vesting	12 years of service.

Retirement Benefit:

Benefit equals 2.5% of average monthly compensation based on last year of service multiplied by number of years of service completed up to a maximum of 20 years, plus 1.25% of average monthly compensation times years of service in excess of 20 years.

Survivor Benefit:

If a participant is eligible for normal retirement or has completed 20 years of service, the death benefit payable is equal to the actuarial equivalent of the benefit the member was eligible to receive if he retired on the date of death.

Disability Benefit:

Service Related	Benefit equals 50% of average monthly compensation, reduced by workers' compensation.
Non-Service Related	If participant has completed 10 years of service, benefit equals 30% of average monthly compensation, reduced by worker's compensation.

LOWER SWATARA TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The township certified 1 ineligible non-uniformed employee (1 unit) and overstated payroll by \$50,542 on the Certification Form AG 385 filed in 2016. The data contained on this certification form 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 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>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2016	1	\$ 4,375	\$ 4,375

In addition, the township used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the non-uniformed and police pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans’ MMOs will not be fully paid.

Recommendation: We recommend that the overpayment of state aid, in the amount of \$4,375, plus interest, be returned to the Commonwealth. 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.

LOWER SWATARA TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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 Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

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

The supplementary information contained on Pages 5 through 8 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	\$ 172,948	\$ 172,666
Interest	535,591	528,670
Difference between expected and actual experience	-	(446,094)
Benefit payments, including refunds of member contributions	<u>(328,060)</u>	<u>(369,293)</u>
Net Change in Total Pension Liability	380,479	(114,051)
Total Pension Liability – Beginning	<u>6,685,966</u>	<u>7,066,445</u>
Total Pension Liability – Ending (a)	<u><u>\$ 7,066,445</u></u>	<u><u>\$ 6,952,394</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 212,916	\$ 246,416
Contributions – member	58,681	61,587
Net investment income	299,257	(28,656)
Benefit payments, including refunds of member contributions	<u>(328,060)</u>	<u>(369,293)</u>
Administrative expense	<u>(2,500)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	240,294	(89,946)
Plan Fiduciary Net Position – Beginning	<u>5,751,279</u>	<u>5,991,573</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 5,991,573</u></u>	<u><u>\$ 5,901,627</u></u>
Township Net Pension Liability – Ending (a-b)	<u><u>\$ 1,074,872</u></u>	<u><u>\$ 1,050,767</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.8%	84.9%
Estimated Covered Employee Payroll	\$ 1,090,306	\$ 1,205,179
Net Pension Liability as a Percentage of Covered Employee Payroll	98.6%	87.2%

LOWER SWATARA 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	\$ 181,299	\$ 184,514
Interest	554,655	588,421
Difference between expected and actual experience	-	(134,969)
Changes of assumptions	-	243,000
Benefit payments, including refunds of member contributions	<u>(401,006)</u>	<u>(449,246)</u>
Net Change in Total Pension Liability	334,948	431,720
Total Pension Liability – Beginning	<u>6,952,394</u>	<u>7,287,342</u>
Total Pension Liability – Ending (a)	<u>\$ 7,287,342</u>	<u>\$ 7,719,062</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 331,489	\$ 323,815
Contributions – member	64,012	56,083
Net investment income	414,964	1,035,685
Benefit payments, including refunds of member contributions	<u>(401,006)</u>	<u>(449,246)</u>
Net Change in Plan Fiduciary Net Position	409,459	966,337
Plan Fiduciary Net Position – Beginning	<u>5,901,627</u>	<u>6,311,086</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,311,086</u>	<u>\$ 7,277,423</u>
Township Net Pension Liability – Ending (a-b)	<u>\$ 976,256</u>	<u>\$ 441,639</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.6%	94.3%
Estimated Covered Employee Payroll	\$ 1,206,625	\$ 976,175
Net Pension Liability as a Percentage of Covered Employee Payroll	80.9%	45.2%

LOWER SWATARA 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 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/14	\$ 1,778,502	\$ 1,074,872	\$ 475,308
Net Pension Liability – 12/31/15	\$ 1,761,663	\$ 1,050,767	\$ 446,129
Net Pension Liability – 12/31/16	\$ 1,707,408	\$ 976,256	\$ 354,072
Net Pension Liability – 12/31/17	\$ 1,237,800	\$ 441,639	\$ (233,208)

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	\$ 72,961	\$ 72,961	\$ -		
2010	80,266	102,048	(21,782)		
2011	158,465	192,868	(34,403)		
2012	156,248	156,248	-		
2013	226,862	226,862	-		
2014	212,916	212,916	-	\$1,090,306	19.5%
2015	246,416	246,416	-	1,205,179	20.4%
2016	309,777	331,489	(21,712)	1,206,625	27.5%
2017	323,815	323,815	-	976,175	33.2%
2018	289,404	289,404			

* 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 years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

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

SCHEDULE OF INVESTMENT RETURNS

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

2016	8.23%
2015	(0.49%)
2014	5.19%

LOWER SWATARA 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	\$ 5,056,842	\$ 6,305,472	\$ 1,248,630	80.2%
01-01-15	5,991,573	6,620,351	628,778	90.5%
01-01-17	6,311,086	7,395,373	1,084,287	85.3%

LOWER SWATARA 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 SWATARA 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 level.
Amortization method	Level dollar.
Remaining amortization period	9 years
Asset valuation method	Market value.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%
Cost-of-living adjustments	3.0%, every third year.

* Includes inflation at 3.0%

LOWER SWATARA TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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