

LIMITED PROCEDURES ENGAGEMENT

Marshall Township Non-Uniformed Employees' Pension Plan

Allegheny 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
Marshall Township
Allegheny County
Wexford, PA 15090

We conducted a Limited Procedures Engagement (LPE) of the Marshall Township Non-Uniformed Employees' Pension Plan for the period January 1, 2015 to December 31, 2017 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 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- 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, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Marshall Township Non-Uniformed Employees' 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 Marshall 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.

January 28, 2019



EUGENE A. DEPASQUALE
Auditor General

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MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$31,274 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), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to implement 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 township received an underpayment of state aid as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2016	1	\$ 4,375	\$ 4,375

Although the township will be reimbursed for the underpayment of state aid due to the township's certification error, the full amount of the 2016 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

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

Auditor Conclusion: Compliance will be evaluated during our next engagement of the plan.

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 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	\$ 133,336	\$ 125,714
Interest	234,957	247,200
Difference between expected and actual experience	-	(124,816)
Benefit payments, including refunds of member contributions	(72,205)	(73,081)
Net Change in Total Pension Liability	<u>296,088</u>	<u>175,017</u>
Total Pension Liability – Beginning	3,034,890	3,330,978
Total Pension Liability – Ending (a)	<u>\$ 3,330,978</u>	<u>\$ 3,505,995</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 177,876	\$ 180,065
Contributions – employee	11,453	11,898
Net investment income	102,229	30,431
Benefit payments, including refunds of member contributions	(72,205)	(73,081)
Administrative expense	(21,177)	(25,637)
Net Change in Plan Fiduciary Net Position	<u>198,176</u>	<u>123,676</u>
Plan Fiduciary Net Position – Beginning	2,794,709	2,992,885
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,992,885</u>	<u>\$ 3,116,561</u>
Net Pension Liability – Ending (a-b)	<u>\$ 338,093</u>	<u>\$ 389,434</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.9%	88.9%
Estimated Covered Employee Payroll	\$ 1,145,338	\$ 1,192,923
Net Pension Liability as a Percentage of Covered Employee Payroll	29.5%	32.6%

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' 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	\$ 132,000	\$ 145,531
Interest	270,191	317,567
Difference between expected and actual experience	-	37,256
Changes of assumptions	-	402,047
Benefit payments, including refunds of member contributions	(72,205)	(82,613)
Net Change in Total Pension Liability	<u>329,986</u>	<u>819,788</u>
Total Pension Liability – Beginning	<u>3,505,995</u>	<u>3,835,981</u>
Total Pension Liability – Ending (a)	<u>\$ 3,835,981</u>	<u>\$ 4,655,769</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 164,337	\$ 178,120
Contributions – employee	12,820	13,394
Net investment income	244,873	578,093
Benefit payments, including refunds of member contributions	(72,205)	(82,613)
Administrative expense	(32,553)	(38,270)
Net Change in Plan Fiduciary Net Position	<u>317,272</u>	<u>648,724</u>
Plan Fiduciary Net Position – Beginning	<u>3,116,561</u>	<u>3,433,833</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,433,833</u>	<u>\$ 4,082,557</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 402,148</u>	<u>\$ 573,212</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.5%	87.7%
 Estimated Covered Employee Payroll	\$ 1,292,041	\$ 1,307,154
 Net Pension Liability as a Percentage of Covered Employee Payroll	31.1%	43.9%

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' 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 and 2016, calculated using the discount rate of 7.50%, 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:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability – 12/31/14	\$ 765,829	\$ 338,093	\$ (27,917)
Net Pension Liability – 12/31/15	\$ 838,542	\$ 389,434	\$ 5,536
Net Pension Liability – 12/31/16	\$ 882,016	\$ 402,148	\$ (8,405)

In addition, the following presents the net pension liability of the township as of December 31, 2017, 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:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability – 12/31/17	\$ 1,173,429	\$ 573,212	\$ 64,326

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' 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
2013	\$ 188,150	\$ 188,150	\$ -	N/A	N/A
2014	177,862	177,682	180	\$ 1,142,738	15.5%
2015	180,061	180,061	-	1,192,923	15.1%
2016	164,337	164,337	-	1,292,041	12.7%
2017	178,120	178,120	-	1,307,154	13.6%

* 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 the year 2013.

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.96%
2016	7.89%
2015	1.02%
2014	3.82%

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' 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	\$ 2,213,660	\$ 2,746,932	\$ 533,272	80.6%
01-01-15	2,912,752	3,206,162	293,410	90.8%
01-01-17	3,548,611	4,275,284	726,673	83.0%

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 4-year averaging period. 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.

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' 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.

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' 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, closed
Remaining amortization period	13 years
Asset valuation method	Fair value, 4 year smoothing
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases*	4.75%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.75%

MARSHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Ms. Laurie A. Patterson
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