

COMPLIANCE AUDIT

Mount Carmel Township Police Pension Plan Northumberland County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

July 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
Mount Carmel Township
Northumberland County
Atlas, PA 17851

We have conducted a compliance audit of the Mount Carmel Township Police 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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: The first five bullets should be included in all audit reports.

- 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- 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 contractual agreement with the Pennsylvania State Association of Boroughs were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Carmel Township Police 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Mount Carmel Township Police 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 – Failure To Implement Act 44 Mandatory Distressed Provisions

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.

As previously noted, one of the objectives of our audit of the Mount Carmel Township Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009, through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio is 60.6% as of January 1, 2017**, which is the most recent data available. Based on this information, **the Municipal Pension Reporting Program issued a notification that the township is currently in Level II moderate distress status.** We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Mount Carmel 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.

July 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 Mount Carmel Township Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Mount Carmel Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 08-2008, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established January 1, 1976. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions were waived during the audit period. As of December 31, 2018, the plan had 6 active members, no terminated member eligible for vested benefits in the future, and 5 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 50 and 25 years of service.
Early Retirement	20 years of service.
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 60 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance with Prior Audit Recommendation

Mount Carmel Township has complied with the prior audit recommendations concerning the following:

- Inconsistent Benefit Provisions

Township officials have amended their benefit provisions and adopted a new collective bargaining agreement to ensure consistency and compliance with Act 600; and

- Unauthorized Provision For A Killed In Service Provision

The Township amended the pension plan to eliminate the killed in service provision.

Status of Prior Audit Recommendation

- Undocumented Pension Benefit Calculations

As disclosed in our three previous audit reports, the pension benefit calculations prepared for two plan members who retired during 2007 and 2009, respectively, were prepared using payroll amounts which did not agree with the township's payroll records and resulted in excess monthly benefits of \$21 and \$46, respectively, for these two individuals. In both calculations, former officials were unable to provide documentation to support the salary amounts used in the benefit calculations. We had previously recommended that the pension benefits for the two retirees be adjusted prospectively and that any resulting excess benefit payments made from the plan be deemed ineligible for funding with state aid. During the current period, it was determined that excess benefits are still being paid to existing retirees. Given the township's position on this matter and considering that the township received its state aid based on unit value during the current audit period and, therefore, the township did not receive any state aid attributable to the excess benefits provided, the finding will not be repeated in this audit report. The Department will, however, continue to monitor the effect of the excess benefits on the township's future state aid allocations during subsequent audits of the plan.

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Implement Act 44 Mandatory Distressed Provisions

Condition: Among several provisions relating to municipal pension plans, Act 205, which was amended on September 18, 2009, through the adoption of Act 44 of 2009, provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

Based on the plan’s funded ratio of 56% as of January 1, 2015, the former Public Employees Retirement Commission (PERC) issued a notification in 2016 that the township was in Level II moderate distress status. Based on the plan’s funded ratio of 61% as of January 1, 2017, the Municipal Pension Reporting Program (MPRP), formerly PERC, issued a notification in 2018 that the township remains in Level II moderate distress status.

Included with the determination notices, the MPRP sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan’s Chief Administrative Officer and returned to the MPRP. However, the municipality never returned the election forms; therefore, the township did not comply with the mandatory remedies required under Act 205.

Criteria: Act 205, amended by Act 44, at Section 605(a), states:

Recovery program level II.

- (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
 - (1) The aggregation of trust funds pursuant to section 607(b).
 - (2) The submission of a plan for administrative improvement pursuant to section 607(i).

It should be noted that the municipality maintains only one pension plan; therefore, the remedy requiring the aggregation of pension plans is not applicable for this municipality.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the applicable mandatory distress remedies have been implemented.

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The municipality is not in compliance with the Act 205 mandatory distress remedy provisions applicable to Level II which are designed to improve the funding status and administrative efficiency of its pension plan.

Recommendation: We recommend that municipal officials contact the MPRP for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 205.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 and 7 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, 2015, 2016, 2017, AND 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability				
Service cost	\$ 46,200	\$ 48,048	\$ 55,085	\$ 57,288
Interest	79,104	83,577	83,392	88,804
Difference between expected and actual experience	-	-	(82,078)	-
Changes of assumptions	-	-	3,537	-
Benefit payments, including refunds of member contributions	<u>(63,255)</u>	<u>(63,255)</u>	<u>(62,267)</u>	<u>(64,465)</u>
Net Change in Total Pension Liability	62,049	68,370	(2,331)	81,627
Total Pension Liability – Beginning	<u>1,115,487</u>	<u>1,177,536</u>	<u>1,245,906</u>	<u>1,243,575</u>
Total Pension Liability – Ending (a)	<u>\$ 1,177,536</u>	<u>\$ 1,245,906</u>	<u>\$ 1,243,575</u>	<u>\$ 1,325,202</u>
Plan Fiduciary Net Position				
Contributions – employer	\$ 36,530	\$ 69,685	\$ 69,197	\$ 73,329
Contributions – state aid	47,050	52,496	55,059	56,213
Net investment income	(16,903)	23,770	75,038	(35,500)
Benefit payments, including refunds of member contributions	(63,255)	(63,255)	(62,267)	(64,465)
Administrative expense	<u>(6,666)</u>	<u>(11,234)</u>	<u>(10,120)</u>	<u>(7,884)</u>
Net Change in Plan Fiduciary Net Position	(3,244)	71,462	126,907	21,693
Plan Fiduciary Net Position – Beginning	<u>520,990</u>	<u>517,746</u>	<u>589,208</u>	<u>716,115</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 517,746</u>	<u>\$ 589,208</u>	<u>\$ 716,115</u>	<u>\$ 737,808</u>
Net Pension Liability – Ending (a-b)	<u>\$ 659,790</u>	<u>\$ 656,698</u>	<u>\$ 527,460</u>	<u>\$ 587,394</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	44.0%	47.3%	57.6%	55.7%
Estimated Covered Employee Payroll	\$ 296,090	\$ 298,558	\$ 309,972	\$ 299,440
Net Pension Liability as a Percentage of Covered Employee Payroll	222.8%	220.0%	170.2%	196.2%

MOUNT CARMEL 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, 2015, 2016, 2017, and 2018, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/15	\$ 829,874	\$ 659,790	\$ 520,078
Net Pension Liability – 12/31/16	\$ 839,484	\$ 656,698	\$ 506,481
Net Pension Liability – 12/31/17	\$ 704,168	\$ 527,460	\$ 381,644
Net Pension Liability – 12/31/18	\$ 779,016	\$ 587,394	\$ 429,301

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.96%)
2017	12.72%
2016	4.59%
2015	(3.24%)

MOUNT CARMEL 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, 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	\$ 570,941	\$ 952,442	\$ 381,501	59.9%
01-01-15	625,188	1,115,487	490,299	56.0%
01-01-17	707,050	1,167,365	460,315	60.6%

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 five-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair 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.

MOUNT CARMEL 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.

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	\$ 65,319	100.0%
2014	66,128	100.0%
2015	83,580	100.0%
2016	122,181	100.0%
2017	124,256	100.0%
2018	129,542	100.0%

MOUNT CARMEL 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
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	7.0%
Projected salary increases	4.0%

MOUNT CARMEL 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. Aaron Domanski
Chairman, Board of Township Supervisors

Mr. Rich Mychak
Township Supervisor

Mr. Brian Hollenbush
Chief of Police

Ms. Lisa Fiamoncini
Township Secretary

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