

LIMITED PROCEDURES ENGAGEMENT

Mount Pleasant Township Police Pension Plan Washington County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

December 2018



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 Pleasant Township
Washington County
Hickory, PA 15340

We conducted a Limited Procedures Engagement (LPE) of the Mount Pleasant Township Police Pension Plan for the period January 1, 2014 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Mount Pleasant Township Police 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 – Noncompliance With Prior Audit Recommendation – Incorrect Data
On Certification Form AG 385 Resulting In A Net 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 Mount Pleasant 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.

December 6, 2018



EUGENE A. DEPASQUALE
Auditor General

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MOUNT PLEASANT TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Mount Pleasant Township has not complied with the prior audit report recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

MOUNT PLEASANT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: Our prior audit report disclosed that the township reported incorrect data on the Certification Forms AG 385 filed in 2012, 2013, and 2014 resulting in underpayments of state aid totaling \$24,474. This amount was subsequently allocated to the township in April 2015.

During the current engagement period, the township failed to certify 1 eligible police officer (2 units) on the Certification Form AG 385 filed in 2015 and also made a mathematical error on the roster that supports the form resulting in an overstatement of payroll in the amount of \$11,000. In addition, subsequent to the current engagement period, the township failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$22,998 on the Certification Form AG 385 filed in 2018. The data contained on these certification forms 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 again failed to establish adequate internal control procedures to ensure the accuracy of the data certified and to ensure compliance with the prior audit recommendation.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans.

The township’s original state aid allocation for 2015 was based on unit value in the amount of \$47,050 (12 units at \$3,920.83). However, based on the corrected information, the township was entitled to an allocation of \$45,990 based on their plans’ total pension costs. Therefore, the township received an overpayment of state aid in the amount of \$1,060 in 2015.

In addition, because the township’s 2018 state aid allocation was based on pension costs, the township received an underpayment of state aid of \$1,943 in 2018, as identified below:

Type Of Plan	Normal Cost	Payroll Understated	State Aid Underpayment
Non-Uniformed	8.45%	\$ 22,998	\$ 1,943

Therefore, as a result of the certification errors in 2015 and 2018, the township received a net underpayment of state aid in the amount of \$883.

MOUNT PLEASANT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Although the additional state aid will be allocated to the township, the full amount of the 2018 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We again recommend that 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.

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

Auditor's Conclusion: Compliance will be subject to verification through our next engagement.

MOUNT PLEASANT TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 19,549	\$ 20,260	\$ 21,620
Interest	8,651	8,202	9,035
Difference between expected and actual experience	(36,472)	-	8,690
Changes of assumptions	-	(14,485)	9,260
Benefit payments, including refunds of member contributions	(827)	(382)	-
Net Change in Total Pension Liability	<u>(9,099)</u>	<u>13,595</u>	<u>48,605</u>
Total Pension Liability - Beginning	138,155	129,056	142,651
Total Pension Liability - Ending (a)	<u>\$ 129,056</u>	<u>\$ 142,651</u>	<u>\$ 191,256</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 21,840	\$ 15,890	\$ 24,486
Contributions - PMRS assessment	-	120	80
Contributions - member	4,478	6,008	7,793
PMRS investment income	4,385	5,832	7,467
Market value investment income	(623)	(7,639)	1,074
Benefit payments, including refunds of member contributions	(827)	(382)	-
PMRS administrative expense	(60)	(120)	(80)
Additional administrative expense	(168)	(243)	(366)
Net Change in Plan Fiduciary Net Position	<u>29,025</u>	<u>19,466</u>	<u>40,454</u>
Plan Fiduciary Net Position - Beginning	70,212	99,237	118,703
Plan Fiduciary Net Position - Ending (b)	<u>\$ 99,237</u>	<u>\$ 118,703</u>	<u>\$ 159,157</u>
Net Pension Liability - Ending (a-b)	<u>\$ 29,819</u>	<u>\$ 23,948</u>	<u>\$ 32,099</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.89%	83.21%	83.22%
Estimated Covered Employee Payroll	\$ 109,200	\$ 120,174	\$ 155,873
Net Pension Liability as a Percentage of Covered Employee Payroll	27.31%	19.93%	20.59%

MOUNT PLEASANT 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 56,655	\$ 29,819	\$ 7,954
Net Pension Liability - 12/31/15	\$ 55,063	\$ 23,948	\$ (1,158)

The following presents the net pension liability of the township as of December 31, 2016, calculated using the discount rate of 5.25%, 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 (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 74,700	\$ 32,099	\$ (2,095)

MOUNT PLEASANT 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	\$ 55,846	\$ 114,306	\$ 58,460	48.9%
01-01-15	100,461	129,056	28,595	77.8%
01-01-17	166,897	191,256	24,359	87.3%

MOUNT PLEASANT 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 PLEASANT 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
2012	\$ 5,765	100.0%
2013	10,682	100.4%
2014	11,840	184.5%
2015	15,705	101.9%
2016	24,566	100.0%
2017	21,129	100.0%

MOUNT PLEASANT 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, closed
Remaining amortization period	12 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

MOUNT PLEASANT 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. Gary R. Farner
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Mr. Donald Reed
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Mr. George Rice
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Pennsylvania Municipal Retirement System

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