

COMPLIANCE AUDIT

Newton Township Police Pension Plan Lackawanna County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

August 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
Newton Township
Lackawanna County
Clarks Summit, PA 18411-9687

We have conducted a compliance audit of the Newton Township Police Pension Plan for the period January 1, 2016 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 that there were no employee contributions required by the plan’s governing document and applicable laws and regulations for the years covered by our audit period.
- 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 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Newton 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 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 Newton Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The objective of our audit of the Newton 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 37.0% as of January 1, 2017**, which is the most recent data available. Based on this information, and the funded status of the township's non-uniformed pension plan, 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 Newton 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 12, 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 Newton 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943 (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1 et seq.

The Newton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 94-2 as amended, adopted pursuant to Act 120. The plan was established January 1, 1985. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had no active members, no terminated members eligible for vested benefits in the future, and 1 retiree 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 53 and 20 years of service.
Early Retirement	Age 60 and 15 years of service, reduced by 1/180 th for each month retirement takes place prior to age 62.
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

The monthly pension shall be 2.5% credit for each year of service (maximum 62.5%) times the average monthly compensation over the participant's last 36 months of employment

Survivor Benefit:

A pension benefit shall be automatically provided to a retired officer's spouse or to the spouse of an officer eligible to retire, equal to 50% of the eligible pension

Service Related Disability Benefit:

A monthly benefit equal to 50% of the member's average monthly compensation over the last 36 months of employment offset by Social Security disability benefits received for the same injury.

NEWTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION - (UNAUDITED)

The supplementary information contained on Pages 3 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Interest	\$ 34,846	\$ 24,391	\$ 23,506	\$ 24,305	\$ 23,415
Difference between expected and actual experience	-	(45,335)	-	8,413	-
Changes of assumptions	-	-	-	14,914	-
Benefit payments, including refunds of member contributions	(221,664)	(36,180)	(36,180)	(36,180)	(36,180)
Net Change in Total Pension Liability	(186,818)	(57,124)	(12,674)	11,452	(12,765)
Total Pension Liability – Beginning	575,451	388,633	331,509	318,835	330,287
Total Pension Liability – Ending (a)	<u>\$ 388,633</u>	<u>\$ 331,509</u>	<u>\$ 318,835</u>	<u>\$ 330,287</u>	<u>\$ 317,522</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 16,401	\$ 19,350	\$ 19,350	\$ 18,511	\$ 18,511
Net investment income	1,790	(4,507)	5,784	13,287	(7,363)
Benefit payments, including refunds of member contributions	(221,664)	(36,180)	(36,180)	(36,180)	(36,180)
Administrative expense	-	(2,500)	-	(2,700)	(1,000)
Other	199	-	-	-	-
Net Change in Plan Fiduciary Net Position	(203,274)	(23,837)	(11,046)	(7,082)	(26,032)
Plan Fiduciary Net Position – Beginning	364,909	161,635	137,798	126,752	119,670
Plan Fiduciary Net Position – Ending (b)	<u>\$ 161,635</u>	<u>\$ 137,798</u>	<u>\$ 126,752</u>	<u>\$ 119,670</u>	<u>\$ 93,638</u>
Net Pension Liability – Ending (a-b)	<u>\$ 226,998</u>	<u>\$ 193,711</u>	<u>\$ 192,083</u>	<u>\$ 210,617</u>	<u>\$ 223,884</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	41.59%	41.57%	39.75%	36.23%	29.49%
Estimated Covered Employee Payroll	\$ -	\$ -	\$ -	\$ -	\$ -
Net Pension Liability as a Percentage of Covered Employee Payroll	0.00%	0.00%	0.00%	0.00%	0.00%

NEWTON 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 borough as of December 31, 2015, 2016, 2017 and 2018, calculated using the discount rate of 7.5%, as well as what the borough'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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/15	\$ 217,889	\$ 193,711	\$ 172,361
Net Pension Liability – 12/31/16	\$ 214,699	\$ 192,083	\$ 172,053
Net Pension Liability – 12/31/17	\$ 234,374	\$ 210,617	\$ 189,590
Net Pension Liability – 12/31/18	\$ 246,063	\$ 223,884	\$ 204,191

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
2014	\$ 16,401	\$ 16,401	\$ -	\$ -	0.00%
2015	19,350	19,350	-	-	0.00%
2016	19,350	19,350	-	-	0.00%
2017	18,511	18,511	-	-	0.00%
2018	18,511	18,511	-	-	0.00%

NEWTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(7.35%)
2017	12.20%
2016	4.76%
2015	(3.15%)
2014	2.42%

NEWTON 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	\$ 334,592	\$ 535,303	\$ 200,711	62.5%
01-01-15	161,635	343,298	181,663	47.1%
01-01-17	126,752	342,162	215,410	37.0%

Note: The reduction in the actuarial value of assets valued at January 1, 2015, reflects a Deferred Retirement Option Plan (DROP) payment in the amount of \$200,559 made during 2014 to the plan’s only active member. As of December 31, 2014, the plan had no active members.

NEWTON 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.

NEWTON 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	17 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%

NEWTON 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. Douglas Pallman
Chairman, Board of Township Supervisors

Mr. Kevin Carr
Vice Chairman, Board of Township Supervisors

Mr. Robert Naegele
Township Supervisor

Ms. Francine Fawcett
Secretary/Treasurer

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