

COMPLIANCE AUDIT

North Lebanon Township Non-Uniformed Pension Plan Lebanon County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

April 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
North Lebanon Township
Lebanon County
Lebanon, PA 17046

We have conducted a compliance audit of the North Lebanon 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 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 whether retirement benefits calculated for all three 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 the two 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.
- 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.

North Lebanon 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 North Lebanon 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 North Lebanon Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 North Lebanon 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.

April 11, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
Report Distribution List	8

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 North Lebanon 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The North Lebanon Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1-2009, as amended. The plan was established August 30, 1982. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 16 active members, 2 terminated members eligible for vested benefits in the future, and 6 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 and 12 years of service.
- Early Retirement Age 55 and 12 years of service.
- Vesting A member is vested with 12 years of service.

Retirement Benefit:

Benefit equals 2.0% (1.5% if hired on or after June 1, 2018) of average monthly compensation based on last 36 months of employment times years of service.

Survivor Benefit:

If vested at time of death, the surviving spouse is entitled to 50% of the amount payable to the member if he had been retired on the day before his death under a joint and 50% survivor annuity option.

Disability Benefit:

None

NORTH LEBANON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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					
Service cost	\$ 84,350	\$ 78,870	\$ 82,419	\$ 83,881	\$ 87,656
Interest cost	190,178	201,271	221,152	232,549	254,503
Change for experience	-	(101,157)	-	(261,023)	-
Change of assumption	-	-	-	124,848	-
Benefit payments, including refunds of member contributions	(20,439)	(19,525)	(17,698)	(16,098)	(38,863)
Net Change in Total Pension Liability	254,089	159,459	285,873	164,157	303,296
Total Pension Liability – Beginning	2,461,574	2,715,663	2,875,122	3,160,995	3,325,152
Total Pension Liability – Ending (a)	<u>\$ 2,715,663</u>	<u>\$ 2,875,122</u>	<u>\$ 3,160,995</u>	<u>\$ 3,325,152</u>	<u>\$ 3,628,448</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 150,604	\$ 163,751	\$ 132,808	\$ 128,622	\$ 123,682
Net investment income	116,972	(41,309)	231,096	365,888	(224,991)
Benefit payments, including refunds of member contributions	(20,439)	(19,525)	(17,698)	(16,098)	(38,863)
Administrative expense	(2,300)	(5,000)	(3,300)	(6,000)	(5,600)
Net Change in Plan Fiduciary Net Position	244,837	97,917	342,906	472,412	(145,772)
Plan Fiduciary Net Position – Beginning	2,217,983	2,462,820	2,560,737	2,903,643	3,376,055
Net Pension Liability – Ending (a-b)	<u>\$ 2,462,820</u>	<u>\$ 2,560,737</u>	<u>\$ 2,903,643</u>	<u>\$ 3,376,055</u>	<u>\$ 3,230,283</u>
Net Pension Liability – Ending (a-b)	<u>\$ 252,843</u>	<u>\$ 314,385</u>	<u>\$ 257,352</u>	<u>\$ (50,903)</u>	<u>\$ 398,165</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.69%	89.07%	91.86%	101.53%	89.03%
Estimated Covered Employee Payroll	\$ 729,568	\$ 664,425	\$ 762,182	\$ 733,121	\$ 747,653
Net Pension Liability as a Percentage of Covered Employee Payroll	34.66%	47.32%	33.77%	(6.94%)	53.26%

NORTH LEBANON 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, 2015, 2016, 2017, and 2018, 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:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/15	\$ 635,760	\$ 314,385	\$ 36,316
Net Pension Liability – 12/31/16	\$ 591,127	\$ 257,352	\$ (31,804)
Net Pension Liability – 12/31/17	\$ 306,138	\$ (50,903)	\$ (357,862)
Net Pension Liability – 12/31/18	\$ 766,351	\$ 398,165	\$ 81,403

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	\$ 69,879	\$ 69,883	\$ (4)		
2010	74,140	74,140	-		
2011	132,487	132,487	-		
2012	145,413	145,413	-		
2013	146,561	146,561	-		
2014	150,604	150,604	-	\$ 729,568	20.64%
2015	163,751	163,751	-	664,425	24.65%
2016	132,808	132,808	-	762,182	17.42%
2017	128,622	128,622	-	733,121	17.54%
2018	123,682	123,682	-	747,653	16.54%

* 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.

NORTH LEBANON 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	\$ 1,784,672	\$ 2,228,844	\$ 444,172	80.1%
01-01-15	2,462,820	2,614,506	151,686	94.2%
01-01-17	2,903,643	3,024,820	121,177	96.0%

NORTH LEBANON 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.

NORTH LEBANON 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 normal.
Amortization method	Level dollar.
Remaining amortization period	5 years
Asset valuation method	Market value.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed.

NORTH LEBANON TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Richard E. Miller
Chairman, Board of Township Supervisors

Mr. A. Bruce Sattazahn
Vice-Chairman, Board of Township Supervisors

Mr. Edward Brensinger
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