

COMPLIANCE AUDIT

North Strabane Township Non-Uniformed Management 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
North Strabane Township
Washington County
Canonsburg, PA 15317

We have conducted a compliance audit of the North Strabane Township Non-Uniformed Management Pension Plan for the period January 1, 2014 to December 31, 2017. 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. Employer contributions that were deposited into the cash balance pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. For the cash balance pension plan, we also tested individual employee contributions for all 3 active employees employed during 2015 amounting to \$4,498, all 7 active employees employed during 2016 amounting to \$14,531, and all 11 active employees employed during 2017 amounting to \$30,004.
- We determined whether retirement benefits calculated for the 2 plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 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 contractual agreement with the Pennsylvania Municipal Retirement System 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.

North Strabane Township contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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.

The North Strabane Township Non-Uniformed Management Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Strabane Township Non-Uniformed Management 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 Strabane Township Non-Uniformed Management 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 Strabane 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.

November 14, 2018



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 North Strabane Township Non-Uniformed Management 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The North Strabane Township Non-Uniformed Management Pension Plan is a single-employer tiered pension plan administered by PMRS. Prior to January 1, 2015, the plan was comprised of a cash balance plan locally controlled by the provisions of Ordinance No. 188, as amended, adopted pursuant to Act 15, and a defined benefit plan locally controlled by the provisions of Ordinance No. 328, adopted pursuant to Act 15. The cash balance plan was established January 1, 1985. The defined benefit plan was established January 1, 2008, at which time the only members in the cash balance plan were retirees and terminated vested members. The township adopted Ordinance No. 357, effective January 1, 2015, which repealed all other plan documents and adopted one plan document with a two-tiered benefit structure. The defined benefit plan was frozen to new membership, and all new active management employees hired after January 1, 2015 were placed in the cash balance plan.

BACKGROUND – (Continued)

As of December 31, 2017, the cash balance plan had 11 active members, 3 terminated members eligible for vested benefits in the future, and 2 retirees receiving benefits funded through annuities purchased with plan assets. Active members are required to contribute 3 percent of compensation to the plan; however, member contributions were eliminated during the audit period. As of December 31, 2017, the defined benefit plan had 18 active members which included firefighters, 3 terminated members eligible for vested benefits in the future, and 5 retirees receiving benefits funded through annuities purchased with plan assets.

Effective April 1, 2018, the township adopted Ordinance No. 375, which repealed all other plan documents and adopted six plan documents: three for non-uniformed management employees and three for firefighters who are in a non-uniformed plan. The new non-uniformed pension plans are as follows:

- 1) All active non-uniformed management employees hired on or before December 31, 2014 - a defined benefit plan.
- 2) All active non-uniformed management employees hired on or after January 1, 2015 - a cash balance plan.
- 3) Management employees hired on or before December 31, 2014 - a cash balance agreement which allows those employees who are in the defined benefit plan to make optional after-tax contributions.
- 4) All active firefighters hired on or before December 31, 2014 - a defined benefit plan.
- 5) All active firefighters hired on or after January 1, 2015 - a cash balance plan.
- 6) Firefighters hired on or before December 31, 2014 - a cash balance agreement which allows those firefighters who are in the defined benefit plan to make optional after-tax contributions.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions were as follows:

Eligibility Requirements:

Normal Retirement	Available upon attainment of age 55.
Early Retirement	None available.
Vesting	25% vested per year of service up to 100% vested after 4 years.

Retirement Benefit:

Benefit equals 2.5% times credited service times Final Average Salary (FAS). But in no event is the basic benefit greater than 50% of FAS. FAS based upon final 3 years annualized salary. A separate benefit is provided by optional member contributions.

Survivor Benefit:

Immediate eligibility if hired prior to 1/1/2008. If hired on or after 1/1/2008, if eligible to retire at the time of death, beneficiary receives present value of accrued benefit. At retirement, member may select a survivor benefit.

Service Related Disability Benefit:

Benefit is equal to the unreduced accrued benefit provided to a member who is unable to perform gainful employment.

Non-Service Related Disability Benefit:

Benefit is equal to the unreduced accrued benefit provided to a member who is unable to perform gainful employment.

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

The supplementary information contained on pages 4 through 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, 2014, 2015, AND 2016

DEFINED BENEFIT PLAN

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 209,762	\$ 264,780	\$ 256,081
Interest	198,065	216,633	241,986
Difference between expected and actual experience	(63,589)	(14,017)	(112,354)
Changes of assumptions	-	23,601	113,663
Benefit payments, including refunds of member contributions	(36,814)	(42,777)	(37,816)
Net Change in Total Pension Liability	<u>307,424</u>	<u>448,220</u>	<u>461,560</u>
Total Pension Liability – Beginning	<u>3,429,046</u>	<u>3,736,470</u>	<u>4,184,690</u>
Total Pension Liability - Ending (a)	<u><u>\$ 3,736,470</u></u>	<u><u>\$ 4,184,690</u></u>	<u><u>\$ 4,646,250</u></u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 262,366	\$ 259,428	\$ 205,781
Contributions – member	73,170	92,577	81,960
PMRS investment income	213,430	232,842	262,081
Market value investment income	(14,100)	(269,358)	95,604
Benefit payments, including refunds of member contributions	(36,814)	(42,777)	(37,816)
PMRS administrative expense	(700)	(660)	(540)
Additional administrative expense	(8,185)	(9,707)	(12,840)
Net Change in Plan Fiduciary Net Position	<u>489,167</u>	<u>262,345</u>	<u>594,230</u>
Plan Fiduciary Net Position – Beginning	<u>3,629,299</u>	<u>4,118,466</u>	<u>4,380,811</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 4,118,466</u></u>	<u><u>\$ 4,380,811</u></u>	<u><u>\$ 4,975,041</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (381,996)</u></u>	<u><u>\$ (196,121)</u></u>	<u><u>\$ (328,791)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	110.22%	104.69%	107.08%
Estimated Covered Employee Payroll	\$ 1,047,908	\$ 1,286,588	\$ 1,260,795
Net Pension Liability as a Percentage of Covered Employee Payroll	-36.45%	-15.24%	-26.08%

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

DEFINED BENEFIT PLAN

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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ 34,599	\$ (381,996)	\$ (737,167)
Net Pension Liability - 12/31/15	\$ 256,260	\$ (196,121)	\$ (579,968)

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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 111,720	\$ (328,791)	\$ (708,998)

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

SCHEDULE OF CHANGES IN THE NET PENSION
 LIABILITY AND RELATED RATIOS
 FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

CASH BALANCE PLAN

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ -	\$ 13,274	\$ 37,955
Interest	14,243	14,013	15,695
Difference between expected and actual experience	(1,926)	474	232
Changes of assumptions	-	610	2,425
Transfers	-	2,206	1,877
Benefit payments, including refunds of member contributions	(4,361)	(8,004)	(7,529)
Net Change in Total Pension Liability	<u>7,956</u>	<u>22,573</u>	<u>50,655</u>
Total Pension Liability - Beginning	245,314	253,270	275,843
Total Pension Liability - Ending (a)	<u>\$ 253,270</u>	<u>\$ 275,843</u>	<u>\$ 326,498</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ -	\$ 8,776	\$ 23,425
Contributions – PMRS assessment	-	40	200
Contributions – member	-	4,498	14,531
PMRS investment income	14,183	13,924	15,647
Market value investment income	(3,564)	(15,145)	5,395
Transfers	-	2,206	1,877
Benefit payments, including refunds of member contributions	(4,361)	(8,004)	(7,529)
PMRS administrative expense	-	(40)	(140)
Additional administrative expense	(544)	(580)	(767)
Net Change in Plan Fiduciary Net Position	<u>5,714</u>	<u>5,675</u>	<u>52,639</u>
Plan Fiduciary Net Position - Beginning	241,809	247,523	253,198
Plan Fiduciary Net Position - Ending (b)	<u>\$ 247,523</u>	<u>\$ 253,198</u>	<u>\$ 305,837</u>
Net Pension Liability - Ending (a-b)	<u>\$ 5,747</u>	<u>\$ 22,645</u>	<u>\$ 20,661</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.73%	91.79%	93.67%
Estimated Covered Employee Payroll	\$ -	\$ 117,019	\$ 292,806
Net Pension Liability as a Percentage of Covered Employee Payroll	N/A	19.35%	7.06%

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

CASH BALANCE PLAN

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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ 46,689	\$ 5,747	\$ (33,490)
Net Pension Liability - 12/31/15	\$ 68,060	\$ 22,645	\$ (21,135)

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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 76,073	\$ 20,661	\$ (33,135)

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

DEFINED BENEFIT PLAN

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	\$ 3,179,376	\$ 3,094,215	\$ (85,161)	102.8%
01-01-15	4,186,320	3,736,470	(449,850)	112.0%
01-01-17	5,254,314	4,646,250	(608,064)	113.1%

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

DEFINED BENEFIT PLAN

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 158,717	199.5%
2013	155,593	178.4%
2014	159,396	164.6%
2015	154,623	167.8%
2016	155,428	132.4%
2017	112,440	138.9%

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

DEFINED BENEFIT PLAN

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	N/A
Remaining amortization period	N/A
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

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

CASH BALANCE PLAN

Year Ended December 31	State Aid	Employer Contributions
2012	None	N/A
2013	None	N/A
2014	None	N/A
2015	None	\$ 8,776
2016	None	23,425
2017	None	38,260

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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