

# COMPLIANCE AUDIT

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## Norwegian Township Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

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May 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Board of Township Supervisors  
Norwegian Township  
Schuylkill County  
Mar Lin, PA 17951

We have conducted a compliance audit of the Norwegian Township Police Pension Plan for the period January 1, 2017 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding contained in our prior 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 finding contained in our prior 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:

- 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, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, respectively, in accordance with Act 205 and whether selected information provided on this report 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Norwegian Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

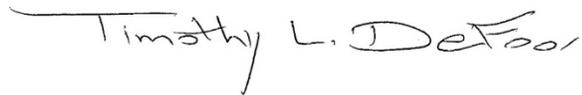
The results of our procedures indicated that, in all significant respects, the Norwegian Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Failure To  
Pay The Minimum Municipal Obligation Of The Plan

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Norwegian 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

May 5, 2021

Timothy L. DeFoor  
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.

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 Norwegian Township Police Pension Plan is also governed by implementing regulations 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 Norwegian Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of an ordinance dated December 2, 1975, as amended, adopted pursuant to Act 69. The plan was established December 2, 1975. As of December 31, 2020, the plan had no active members, no terminated members eligible for vested benefits in the future, and one retiree receiving pension benefits.

NORWEGIAN TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

Norwegian Township has partially complied with the prior recommendation concerning the following:

· Failure To Pay The Minimum Municipal Obligation (MMO) Of The Plan

As disclosed in the prior audit report, the township established a receivable in the amount of \$129,364 for the outstanding 2010 MMO due the pension plan, with interest calculated annually on the outstanding amount, with the intention of paying \$10,000 per year beginning in 2013 towards this outstanding obligation. During subsequent audit periods, the township paid \$17,500 during 2013 and 2014 and \$15,620 during 2015 and 2016 towards this outstanding obligation. However, as disclosed in the most recent prior audit report, the township again failed to pay the MMO due its police pension plan for 2017 in the amount of \$3,018 as required by Act 205, thereby further increasing the total MMO funding deficiency due the police pension plan to \$156,750 as of December 31, 2017, which includes cumulative interest calculated from January 1 of the year the MMO was originally due. In addition, during the current audit period, the township paid an additional \$16,555 (*\$13,357 and \$3,190 for 2010 and 2017, respectively*) towards the outstanding MMO obligation; however, the township again failed to pay the annual MMO due its police pension plan as required by Act 205, as further discussed in the Finding and Recommendation section of this report.

NORWEGIAN TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligation Of The Plan**

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with our prior audit recommendation by depositing \$16,555 towards its outstanding MMO obligation during 2018. However, a similar condition occurred during the current audit period. The township again failed to pay the MMO that was due to the police pension plan for the years 2019 in the amount of \$3,445 and 2020 in the amount of \$3,445. Based on an estimate prepared by the plan’s actuary, the total funding deficiency due to the township’s police pension plan amounted to \$170,419 as of December 31, 2020.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: As previously disclosed in the prior audit report, an arbitration award significantly changed the benefit structure of the township’s police pension plan and effectively doubled the liabilities of the pension plan. Furthermore, the only active police officer retired under the changed benefit structure and elected a joint and 100% survivor annuity. With this retirement and no active police officers, the township is no longer eligible to receive state aid or employee contributions to help fund the liability. Furthermore, the township lacked the available resources to fully fund the outstanding 2010, 2019 and 2020 MMO obligations and ensure compliance with the prior audit recommendation.

NORWEGIAN TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: The continued failure to fully pay the plan’s MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its remaining member. According to the plan’s actuary, in its current condition, the trust account has approximately 15 percent of the necessary assets to meet future benefit liabilities. If the township fails to make future contributions and meets its 5 percent investment return benchmark each year while paying \$18,900 in benefits and approximately \$2,000 in expenses out of the fund each year, the trust account will be depleted during the 2022 plan year. If the township resumes its funding policy of contributing \$10,000 per year and meets its 5 percent investment return benchmark each year while paying \$18,900 in benefits payments and approximately \$2,000 in expenses out of the fund each year, the trust account will be depleted during the 2024 plan year. If at any point in the future, the Township does not meet its 5 percent investment return benchmark, the trust account would deplete at a faster rate. Without regard to Act 205 funding requirements, the actuary also determined that a minimum contribution of \$19,000 per year beginning with the 2021 plan year would be required in order to adequately fund the plan.

Due to the municipality’s failure to fully pay the 2010 outstanding MMO as well as the 2019 and 2020 MMOs by the December 31 due dates, the municipality must add the outstanding MMO balances due to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We again recommend that the municipality pay the outstanding MMOs due to the police pension plan, for the years 2010, 2019 and 2020, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that in the future, plan officials pay the full MMO due to the plan in accordance with Act 205.

Management’s Response: Municipal officials agreed with the finding without exception, and indicated that the board of supervisors is planning on making a deposit in 2021 towards the outstanding MMOs.

Auditor’s Conclusion: Based on the management response, the issue remains as stated since an annual payment plan is not a prescribed methodology for paying the plan’s required MMO pursuant to Act 205. In addition, although the department is sympathetic to the borough’s current fiscal situation and inability to eliminate the deficiency, continued underfunding and/or missed MMO payments will continue to result in a deteriorating funding status for the plan going forward.

Compliance will be monitored subsequent to the release of the audit report and through our next audit of the plan during the next audit of the plan.

NORWEGIAN 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, 2015, 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)
01-01-15	\$ 276,292	\$ 286,165	\$ 9,873	96.5%*
01-01-17	255,864	277,310	21,446	92.3%*
01-01-19	237,948	267,193	29,245	89.1%*

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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.

\* The actuarial value of assets at 01-01-15, 01-01-17 and 01-01-19 contains a receivable from the township amounting to \$147,457, \$146,103 and \$140,195, respectively, for the outstanding 2010 pension obligation, which increases the funded ratio above its actual funding ratio, 42.5%, 37.4% and 35.1%, respectively, based on actual assets available for benefits as of the respective valuation dates.

NORWEGIAN 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.

NORWEGIAN 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
2015	\$ 940	100.0%
2016	940	100.0%
2017	3,018	100.0%
2018	3,445	100.0%
2019	3,445	*
2020	3,445	*

*\* The township had an outstanding obligation due the police pension plan for the year according to Act 205 as disclosed in the finding contained in this report. The total overall funding deficiency to the police pension plan as of December 31, 2020, amounted to \$170,419 according to the plan's actuary.*

NORWEGIAN 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	1 year
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	3.5%

NORWEGIAN 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. Stanley Petchulis**  
Chairman, Board of Township Supervisors

**Mr. Dave George**  
Chief Administrative Officer

**Mr. Michael Miller**  
Treasurer

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