

LIMITED PROCEDURES ENGAGEMENT

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

June 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Smith Township
Washington County
Slovan, PA 15078

We conducted a Limited Procedures Engagement (LPE) of the Smith 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 the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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 Smith 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 – Partial Compliance With Prior Audit Finding – Overpayment Of State Aid Due To the Provision Of Excess Pension Benefits

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

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 Smith 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.

May 29, 2018



EUGENE A. DEPASQUALE
Auditor General

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SMITH TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Smith Township has partially complied with the prior audit recommendation concerning the following:

- Overpayment Of State Aid Due To the Provision Of Excess Pension Benefits

On December 9, 2014, the township returned \$6,734 to the Commonwealth for the excess state aid received during 2014 attributable to the excess benefits paid to its retirees. In addition, subsequent to the prior audit period, on November 24, 2015, the township returned an additional \$8,431 based on the Supplemental Actuarial Information Form AG-MP-1 filed with the department and determination made by the plan's actuary representing the excess state aid received during 2015 attributable to the excess benefits and included appropriate interest. However, excess benefits continue to be paid to 3 existing retirees and again resulted in the receipt of excess state aid during 2016 and 2017 as further disclosed in the finding contained in this report.

SMITH TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Finding – Overpayment Of State Aid Due To The Provision Of Excess Pension Benefits

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior audit recommendation by returning excess state aid received during 2014 and 2015 attributable to the excess benefits paid to retirees, to the Commonwealth. However, a similar condition occurred during the current period. Pension benefits in excess of Act 69 provisions continue to be paid to the 3 existing retirees resulting in additional excess state aid to the township totaling \$6,408 in 2016 and \$13,444 in 2017 attributable to such excess benefits.

Criteria: To the extent that the township is not in compliance with Act 69 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 69, such benefits are deemed ineligible for funding with state pension aid.

Cause: Since excess pension benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards and the township's state aid allocation is determined, in part, by the information contained in the plan's actuarial valuation report, the correct inclusion of excess benefits in the actuarial valuation report resulted in the allocation of excess state aid to the township in 2016 and 2017 attributable to excess benefits provided.

Effect: Based on the Supplemental Actuarial Information Form AG-MP-1 as of January 1, 2015 prepared by the plan's actuary and submitted to this department, the impact of the excess benefits on the township's state aid allocations resulted in total excess state aid amounting to \$19,852 for the years 2016 and 2017.

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMOs will not be fully paid.

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid received, in the amount of \$19,852, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

SMITH TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

If the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

To the extent that the township remains contractually obligated to continue to pay benefits to the 3 existing retirees in excess of those authorized by Act 69, and the excess benefits are reflected in the biennial Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards, we again recommend that the township, along with the plan's actuary, continue to determine annually, the impact, if any, of the unauthorized benefits on the township's future state aid allocations and submit this information to the department. If it is determined the unauthorized benefits had an impact on the township's future state aid allocations after the submission of this information, the plan's actuary should contact the Department to verify any overpayments of state aid received and plan officials should reimburse such overpayments to the Commonwealth, accordingly.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next plan engagement.

SMITH TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the township in the amount of \$19,582, plus interest. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

SMITH 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	\$ 425,916	\$ 277,494	\$ (148,422)	153.5%
01-01-15	433,864	302,392	(131,472)	143.5%
01-01-17	410,554	349,890	(60,664)	117.3%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses to a maximum of 120% of market value. 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.

SMITH 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.

SMITH 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	None	N/A
2013	None	N/A
2014	None	N/A
2015	\$ 5,431	100.0%
2016	4,832	100.0%
2017	10,035	132.8%

SMITH TOWNSHIP POLICE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

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	Fair value – Smoothing method describe in Section 210 of Act 205, as amended
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

SMITH 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. Thomas A. Schilinski
Chairman, Board of Township Supervisors

Mr. Timothy J. Green
Secretary

Ms. Michele Meneely
Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.