

LIMITED PROCEDURES ENGAGEMENT

Springdale Township Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

December 2017



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 Commissioners
Springdale Township
Allegheny County
Harwick, PA 15049

We conducted a Limited Procedures Engagement (LPE) of the Springdale Township Police Pension Plan for the period January 1, 2013 to December 31, 2016 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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 Springdale 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 findings further discussed later in this report:

Finding No. 1 – Failure To File Certification Forms AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Late Filing Of Actuarial Valuation Reports

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 Springdale 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.

November 6, 2017



EUGENE A. DEPASQUALE
Auditor General

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SPRINGDALE TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Audit Report Recommendation

- Failure To Include An Eligible Employee In The Pension Plan

The police officer referenced in the prior audit report terminated employment with the township on April 30, 2014 and is no longer eligible to participate in the pension plan. In addition, during the current engagement period, township officials properly enrolled newly hired police officers into the police pension plan.

SPRINGDALE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To File Certification Forms AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to file Certification Forms AG 385 during 2015 and 2016 by the March 31 deadlines. For the Certification Form AG 385 due March 31, 2015, the township failed to certify 3 eligible police officers and payroll amounting to \$172,187 and also failed to certify 1 eligible non-uniformed employee and payroll amounting to \$38,714. For the Certification Form AG 385 due March 31, 2016, the township failed to certify 3 eligible police officers and payroll amounting to \$171,548 and 1 additional eligible non-uniformed employee and payroll amounting to \$42,227. The data contained on these certification forms is based on prior calendar year information. Although not aware of the oversight prior to our engagement, municipal officials prepared and submitted the necessary forms in September 2017.

Criteria: The general instructions that accompany Certification Form AG 385 disclose that municipalities must complete and return the Certification Form AG 385 to the Department of the Auditor General annually by March 31st.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that Certification Forms AG 385 were filed timely in accordance with Act 205 requirements.

Effect: Since the township failed to file the forms by the March 31st deadline, it did not receive state aid allocations in 2015 and 2016. Based on the data reported on the forms filed in September 2017, the township is entitled to receive state aid allocations in the amounts of \$12,031 for 2015 and \$11,485 for 2016.

Although the state aid for 2015 and 2016 will be allocated to the township, those allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in timely filing the required pension data by the annual March 31 deadline.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement.

SPRINGDALE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Late Filing Of Actuarial Valuation Reports

Condition: Actuarial valuation report forms for the township’s police pension plan with valuation dates of January 1, 2013 and January 1, 2015, were not submitted to the former Public Employee Retirement Commission (PERC) by the March 31, 2014 and 2016, deadlines, respectively, as required by Act 205. The actuarial valuation reports were not received by the former PERC until November 5, 2014 and September 8, 2016, respectively.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit

SPRINGDALE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The untimely submission of the actuarial valuation reports occurred because plan officials were not familiar with Act 205 filing deadlines.

Effect: Due to the late filing of the January 1, 2013 actuarial valuation report, the municipality's 2014 state aid allocation was withheld until the necessary report was filed. Therefore, the township's 2014 state aid allocation in the amount of \$8,549, was not released until December 2, 2014 which is 68 days after the release of state aid to those municipalities who submitted their reports by the filing deadline. Furthermore, due to the late filing of the January 1, 2015 actuarial valuation report and the Certification Forms AG 385 as disclosed in Finding No. 1 of this report, the effects on the municipality's state aid allocations for 2015 and 2016 have been determined and reported in Finding No. 1.

Recommendation: To ensure that future actuarial filing deadlines are met in a timely manner and to improve pension plan administration, we recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing deadline.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement.

SPRINGDALE TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 and 6 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 17,917	\$ 23,751
Interest	12,212	13,616
Difference between expected and actual experience	(10,006)	-
Changes of assumptions	-	(28,718)
Benefit payments, including refunds of member contributions	(853)	-
Net Change in Total Pension Liability	<u>19,270</u>	<u>8,649</u>
Total Pension Liability - Beginning	<u>204,543</u>	<u>223,813</u>
Total Pension Liability - Ending (a)	<u><u>\$ 223,813</u></u>	<u><u>\$ 232,462</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 10,908	\$ -
Contributions - member	584	-
PMRS investment income	13,137	-
Market value investment income	(1,002)	(1,405)
Benefit payments, including refunds of member contributions	(853)	-
PMRS administrative expense	(60)	-
Additional administrative expense	(504)	(619)
Net Change in Plan Fiduciary Net Position	<u>22,210</u>	<u>(2,024)</u>
Plan Fiduciary Net Position - Beginning	<u>244,030</u>	<u>266,240</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 266,240</u></u>	<u><u>\$ 264,216</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (42,427)</u></u>	<u><u>\$ (31,754)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	118.96%	113.66%
Estimated Covered Employee Payroll	\$ 129,944	\$ 171,549
Net Pension Liability as a Percentage of Covered Employee Payroll	(32.65%)	(18.51%)

* Employer Contributions consist of member contributions paid by the employer, interest penalty on late deposit of the 2013 Minimum Municipal Obligation, administrative expenses, and allocated insurance premiums paid from actuarial surplus.

SPRINGDALE 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 township as of December 31, 2014 and 2015, calculated using the discount rate of 5.5%, 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 (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ 1,184	\$ (42,427)	\$ (78,630)
Net Pension Liability - 12/31/15	\$ 17,295	\$ (31,754)	\$ (71,839)

SPRINGDALE 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, 2011, 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)
01-01-11	\$ 159,827	\$ 135,981	\$ (23,846)	117.5%
01-01-13	217,211	176,758	(40,453)	122.9%
01-01-15	269,838	223,813	(46,025)	120.6%

SPRINGDALE 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.

SPRINGDALE 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
2011	\$ 15,997	100.0%
2012	12,366	100.0%
2013	11,601	100.0%
2014	9,040	100.0%
2015	11,791	100.0%
2016	11,952	100.0%

SPRINGDALE TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

Actuarial valuation date	January 1, 2015
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.5%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
Cost-of-living adjustments	3.0%, where applicable

* Includes inflation at 3.0%

SPRINGDALE TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Henrietta James
President, Board of Township Commissioners

Mr. James Biery
Vice-President Board of Township Commissioners

Ms. Dawn A. Biery
Township Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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