

COMPLIANCE AUDIT

Susquehanna Township Police Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

December 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 Commissioners
Susquehanna Township
Dauphin County
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We have conducted a compliance audit of the Susquehanna Township Police 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 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 audit 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 audit 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 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 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.
- We determined whether retirement benefits calculated for 5 of 7 of the plan members¹ 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 also determined whether retirement benefits calculated for 1 of 2 plan members² who elected to vest 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 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

¹ We selected plan members randomly from the population of plan members who retired during the current audit period, and through the completion of our fieldwork procedures, in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

² We selected plan members randomly from the population of plan members who elected to vest during the current audit period, and through the completion of our fieldwork procedures, in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

Susquehanna Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Susquehanna Township Police 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 Susquehanna 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

As previously noted, one of the objectives of our audit of the Susquehanna Township Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. **However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 64.8% as of January 1, 2017, which is the most recent data available. Based on this information, the Municipal Pension Reporting Program issued a notification that the township is currently in Level II moderate distress status.** We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Susquehanna 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.

October 31, 2019



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 Susquehanna Township Police 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Susquehanna Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 08-23, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established March 14, 1974. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 41 active members, 2 terminated members eligible for vested benefits in the future, and 38 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 50 and 25 years of service.
Early Retirement	20 years of service or age 50 if employed before August 31, 1986.
Vesting	100% after 12 years of service.

Retirement Benefit:

50% of average monthly compensation based on last 36 months, plus an incremental pension (maximum \$100) of 1.25% of average monthly compensation for each year of service over 25.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

50% of the member's monthly salary at the time of disability.

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

· Incorrect Data On Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the township returned \$16,123 to the Commonwealth for the overpayment of state aid in 2015; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2016 and 2017 as further discussed in the Finding and Recommendation section of this report.

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior audit recommendation by reimbursing the Commonwealth for the overpayment of state aid received in 2015; however, a similar condition occurred during the current audit period. Plan officials again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data for the years 2016 and 2017. The township certified 1 ineligible non-uniformed employee (1 unit) and overstated payroll by \$17,361 on the Certification Form AG 385 filed in 2016. The township also certified 1 ineligible police officer (2 units) and overstated payroll by \$108,626 on the Certification Form AG 385 filed in 2017. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure the accuracy of the data certified and full compliance with the prior audit recommendation.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocations were based on unit value, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2016	Non-Uniformed	1	\$ 4,375	\$ 4,375
2017	Police	2	\$ 4,588	<u>\$ 9,176</u>
Total Overpayment of State Aid				<u>\$ 13,551</u>

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

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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, in the amount of \$13,551, plus interest, 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.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

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 audit report and through our next audit of the plan.

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$13,551, plus interest. A condition 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.

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 7 through 9 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	\$ 645,304	\$ 652,601	\$ 685,231	\$ 715,017	\$ 702,997
Interest	1,724,614	1,819,379	1,914,027	2,096,974	2,198,141
Change for experience and assumptions	-	18,815	-	1,183,956	-
Benefit payments, including refunds of member contributions, death, and terminations	(1,125,159)	(1,230,829)	(1,254,430)	(1,401,993)	(1,500,167)
Net Change in Total Pension Liability	1,244,759	1,259,966	1,344,828	2,593,954	1,400,971
Total Pension Liability – Beginning	22,912,126	24,156,885	25,416,851	26,761,679	29,355,633
Total Pension Liability – Ending (a)	<u>\$ 24,156,885</u>	<u>\$ 25,416,851</u>	<u>\$ 26,761,679</u>	<u>\$ 29,355,633</u>	<u>\$ 30,756,604</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 1,159,572	\$ 1,623,323	\$ 1,707,214	\$ 1,613,960	\$ 1,635,963
Contributions – member	215,133	217,062	220,437	251,189	223,715
Net investment income	505,906	(195,854)	1,535,308	2,387,273	(1,288,866)
Benefit payments, including refunds of member contributions	(1,094,778)	(1,126,974)	(1,033,972)	(1,355,060)	(1,500,167)
Administrative expense	(71,390)	(143,077)	(149,040)	(198,632)	(6,500)
Net Change in Plan Fiduciary Net Position	714,443	374,480	2,279,947	2,698,730	(935,855)
Plan Fiduciary Net Position – Beginning	14,844,202	15,558,645	15,933,125	18,213,072	20,911,802
Plan Fiduciary Net Position – Ending (b)	<u>\$ 15,558,645</u>	<u>\$ 15,933,125</u>	<u>\$ 18,213,072</u>	<u>\$ 20,911,802</u>	<u>\$ 19,975,947</u>
Net Pension Liability – Ending (a-b)	<u>\$ 8,598,240</u>	<u>\$ 9,483,726</u>	<u>\$ 8,548,607</u>	<u>\$ 8,443,831</u>	<u>\$ 10,780,657</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	64.41%	62.69%	68.06%	71.24%	64.95%
Estimated Covered Employee Payroll	\$ 3,609,119	\$ 3,662,041	\$ 3,723,793	\$ 3,864,845	\$ 4,066,069
Net Pension Liability as a Percentage of Covered Employee Payroll	238.24%	258.97%	229.57%	218.48%	265.14%

SUSQUEHANNA 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, 2015, 2016, 2017, and 2018 calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/14	\$ 11,727,400	\$ 8,598,240	\$ 5,936,557
Net Pension Liability – 12/31/15	\$ 12,815,121	\$ 9,483,726	\$ 9,735,481
Net Pension Liability – 12/31/16	\$ 12,132,316	\$ 8,548,607	\$ 5,782,054
Net Pension Liability – 12/31/17	\$ 12,229,145	\$ 8,443,831	\$ 5,281,351
Net Pension Liability – 12/31/18	\$ 14,721,355	\$ 10,780,657	\$ 7,483,553

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
2014	\$ 1,159,572	\$ 1,159,572	\$ -	\$3,609,119	32.13%
2015	1,623,323	1,623,323	-	3,662,041	44.33%
2016	1,707,214	1,707,214	-	3,723,793	45.85%
2017	1,613,960	1,613,960	-	3,864,845	41.76%
2018	1,635,963	1,635,963	-	4,066,069	40.23%

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(6.40%)
2017	12.02%
2016	8.70%
2015	(0.34%)
2014	2.93%

SUSQUEHANNA 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	\$ 12,282,226	\$ 21,688,716	\$ 9,406,490	56.6%
01-01-15	15,584,291	24,221,196	8,636,905	64.3%
01-01-17	18,128,412	27,991,131	9,862,719	64.8%

SUSQUEHANNA 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.

SUSQUEHANNA 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	Equal to increase in Consumer Price Index

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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