

COMPLIANCE AUDIT

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

February 2020



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
Washington Township
Franklin County
Waynesboro, PA 17268

We have conducted a compliance audit of the Washington 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 findings 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 findings 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for all four plan members who retired during the current audit period 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for both plan members who elected to vest during the current audit period, 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 dues to the 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Washington 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 Washington 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Washington Township Police 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 Washington 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.

February 3, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status Of Prior Findings.....	3
Supplementary Information	4
Report Distribution List	10

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 Washington 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Washington Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 177, 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 January 1, 1977. Active members are required to contribute 5 percent of their compensation to the plan; however, member contributions were eliminated during the audit period. As of December 31, 2018, the plan had 6 active members, 2 terminated members eligible for vested benefits in the future, and 8 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	None
Vesting	100% vesting available after 12 years of service and written notification of intention to vest filed within 90 days of termination of employment.

Retirement Benefit:

A monthly benefit equal to sum of (a) 50% of final 36 months average salary, and (b) 2% of (a) above times years of service greater than 25 years, up to \$1,200.

Survivor Benefit:

Pre-Retirement	50% widows benefit payable to spouse if 12 or more years of service. A benefit may be payable to dependent children. Refund of member contributions plus interest if less than 12 years of service.
Post-Retirement	50% of widows benefit payable to spouse. A benefit may be payable to dependent children.

Service-Related Disability Benefit:

Benefit equals 50% of the final 36 month average compensation at time of disability but no less than 50% of the member's salary at time of disability and requires a Social Security offset.

WASHINGTON TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Washington Township has complied with the prior audit recommendations concerning the following:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

During the current audit period, the township paid the outstanding MMO balance due to the pension plan for the year 2013, with interest; and

- Unauthorized Provision For A Killed-In-Service Benefit

The township amended the plan's governing document to remove the killed-in-service provision in accordance with Act 51 of 2009.

WASHINGTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 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, 2015, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 127,810	\$ 130,366	\$ 84,599	\$ 80,570
Interest	318,040	345,078	346,280	367,789
Difference between expected and actual experience	-	-	(334,460)	-
Changes of actuarial assumptions	-	-	(249,789)	-
Benefit payments, including refunds of member contributions	<u>(25,032)</u>	<u>(54,534)</u>	<u>(99,475)</u>	<u>(239,716)</u>
Net Change in Total Pension Liability	420,818	420,910	(252,845)	208,643
Total Pension Liability - Beginning	4,704,537	5,125,355	5,546,265	5,293,420
Total Pension Liability - Ending (a)	<u>\$ 5,125,355</u>	<u>\$ 5,546,265</u>	<u>\$ 5,293,420</u>	<u>\$ 5,502,063</u>
Plan Fiduciary Net Position				
Contributions - employer *	\$ 208,229	\$ 209,646	\$ 190,856	\$ 213,369
Net investment income	166,526	(87,244)	187,868	552,741
Benefit payments, including refunds of member contributions	(25,032)	(54,534)	(99,475)	(239,716)
Administrative expense	<u>(6,484)</u>	<u>(19,616)</u>	<u>(39,826)</u>	<u>(55,874)</u>
Net Change in Plan Fiduciary Net Position	343,239	48,252	239,423	470,520
Plan Fiduciary Net Position - Beginning	3,481,695	3,824,934	3,873,186	4,112,609
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,824,934</u>	<u>\$ 3,873,186</u>	<u>\$ 4,112,609</u>	<u>\$ 4,583,129</u>
Net Pension Liability - Ending (a-b)	<u>\$ 1,300,421</u>	<u>\$ 1,673,079</u>	<u>\$ 1,180,811</u>	<u>\$ 918,934</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.63%	69.83%	77.69%	83.30%
Estimated Covered Employee Payroll	\$ 479,748	\$ 472,737	\$ 422,288	\$ 391,844
Net Pension Liability as a Percentage of Covered Employee Payroll	271.06%	353.91%	279.62%	234.52%

* The 2014 employer contributions include \$2,077 of accrued interest for the 2013 minimum municipal obligation.

WASHINGTON 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 6.60%, 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:

	<u>1% Decrease (5.60%)</u>	<u>Current Discount Rate (6.60%)</u>	<u>1% Increase (7.60%)</u>
Net Pension Liability - 12/31/14	\$ 2,038,381	\$ 1,300,421	\$ 695,092
Net Pension Liability - 12/31/15	\$ 2,419,901	\$ 1,673,079	\$ 1,057,462

In addition, the following presents the net pension liability of the township as of December 31, 2016 and 2017, calculated using the discount rate of 7.00%, 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:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Net Pension Liability - 12/31/16	\$ 1,844,412	\$ 1,180,811	\$ 633,716
Net Pension Liability - 12/31/17	\$ 1,594,469	\$ 918,934	\$ 361,520

WASHINGTON TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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
2009	\$ 159,784	\$ 159,784	\$ -	\$ 891,207	17.93%
2010	162,710	162,710	-	825,678	19.71%
2011	227,673	228,464	(791)	822,011	27.79%
2012	195,765	195,765	-	870,511	22.49%
2013	204,267	204,267	-	881,268	23.18%
2014	206,152	206,152	-	854,688	24.12%
2015	209,646	209,646	-	479,748	43.70%
2016	190,856	190,856	-	472,737	40.37%
2017	213,369	213,369	-	422,288	50.53%
2018	214,342	214,342	-	391,844	54.70%

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.59%
2016	4.12%
2015	(2.30%)
2014	5.14%

WASHINGTON 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	\$ 3,153,199	\$ 3,759,574	\$ 606,375	83.9%
01-01-15	3,946,397	4,869,138	922,741	81.0%
01-01-17	4,438,793	5,293,420	854,627	83.9%

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 subject to a corridor between 80 to 120 percent of the market value of assets. 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.

WASHINGTON 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.

WASHINGTON 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	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor of 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	3.0%
Cost-of-living adjustments	Annual increase equal to increase in the Consumer Price Index.

* Includes inflation at 2.75% per year

WASHINGTON 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. Chad G. Reichard
Chairman, Board of Township Supervisors

Mr. C. Stewart McCleaf
Vice-Chairman, Board of Township Supervisors

Mr. Charles L. Strausbaugh
Township Supervisor

Mr. Daniel Dedona
Township Supervisor

Ms. Barbara A. McCracken
Township Supervisor

Mr. Jeffrey Geesaman
Township Manager

Ms. Karen S. Hargrave
Secretary

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.