

COMPLIANCE AUDIT

Newport Township Non-Uniformed Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

January 2015



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
Newport Township
Luzerne County
Nanticoke, PA 18634

We have conducted a compliance audit of the Newport Township Non-Uniformed Pension Plan for the period January 1, 2011 to December 31, 2013. 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 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

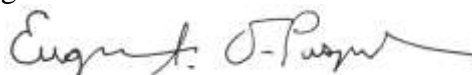
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Newport Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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, 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 tests indicated that, in all significant respects, the Newport Township Non-Uniformed 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 – Unauthorized Participation Of Municipal Authority Employee In Township 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 Newport 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.



EUGENE A. DEPASQUALE
Auditor General

November 12, 2014

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	3
Finding and Recommendation:	
Finding – Unauthorized Participation Of Municipal Authority Employees In Township Pension Plan	4
Supplementary Information	6
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 Newport Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Newport Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a resolution dated October 12, 1992. The plan was established January 1, 1993. Active members are required to contribute 1 percent of compensation to the plan. As of December 31, 2013, the plan had 2 active members (see Finding), no terminated members eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65
Early Retirement	Age 55 and 20 years of service.
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 1% of average monthly compensation during the 5 highest consecutive years during the last 10 years multiplied by years of credited service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest or 50% of vested benefit payable at normal retirement date.
After Retirement Eligibility	Subject to the provisions of the form of payment elected by the participant.

Service Related Disability Benefit:

Qualified for Social Security benefit, the member will receive his accrued benefit as of the date of determination.

NEWPORT TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

· Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Municipal officials supplied correct information regarding nonservice-related disability and eligibility for early retirement benefits to the plan's actuary for the actuarial valuation report forms 202C, with valuation dates of January 1, 2011 and January 1, 2013. However, the actuarial valuation report for the non-uniformed pension plan continues to include data for municipal authority employees who are not authorized to participate in the non-uniformed pension plan, as further discussed in the Finding and Recommendation section of this report.

NEWPORT TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Unauthorized Participation Of Municipal Authority Employees In Township Pension Plan

Condition: During the current audit period, it was determined that the township continues to include 2 employees of the sewer authority in the township’s non-uniformed pension plan, which is not authorized by Act 205. In addition, as noted in the prior audit report, the township continues to report demographic data which includes the employees of the sewer authority, who are not eligible for membership in the township’s non-uniformed pension plan.

Criteria: Municipal authorities are created pursuant to the “Municipal Authorities Act of 1945,” May 2, P.L. 382, 53 P.S. §301 et seq. A municipal authority is an independent political and corporate body, not an agent or representative of its creating municipality.

Act 205 defines a Municipality as follows:

Any city, borough, incorporated town, township, home rule municipality, association of municipalities cooperating pursuant to the act of July 12, 1972 (P.L. 762, No. 180), referred to as the Intergovernmental Cooperation Law, or authority established by the actions of any county, city, borough, town or township or jointly by any such political subdivisions.

Act 205 also defines a Municipal Employee as follows:

Any person who provides regular services for a municipality in return for compensation from the municipality.

In addition, Act 205 defines a Pension Plan or System as follows:

The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

Consequently, since the plan members are employed by the authority and not the municipality, the plan members are not eligible to participate in the township’s non-uniformed pension plan.

Cause: Plan officials failed to adopt adequate internal control procedures to comply with a prior verbal observation.

Effect: The municipal authority employees’ participation in the township’s non-uniformed pension plan could result in unauthorized pension benefits being paid from plan assets.

NEWPORT TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the inclusion of data for ineligible members on the report may have resulted in the municipality receiving an incorrect allocation of state aid.

Furthermore, the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO); therefore, the incorrect data may have resulted in an erroneous MMO calculation.

Recommendation: We recommend municipal officials consult with their solicitor, the municipal authority board, and the Public Employee Retirement Commission, as applicable, to establish and implement procedures that will terminate the municipal authority employees' participation in the non-uniformed pension plan at their earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials will contact the plan's actuary to begin the process of splitting the township and authority plans. The township manager fully understands that the plans should be separated.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

NEWPORT TOWNSHIP NON-UNIFORMED 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, 2009, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	\$ 226,286	\$ 251,543	\$ 25,257	90.0%	\$ 32,913	76.7%
01-01-11	264,610	259,208	(5,402)	102.1%	73,027	(7.4%)
01-01-13	268,121	265,557	(2,564)	101.0%	83,655	(3.1%)

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 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.

NEWPORT TOWNSHIP NON-UNIFORMED 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

NEWPORT TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 7,718	100.0%
2009	5,015	100.0%
2010	4,988	100.0%
2011	4,013	157.2%
2012	None	N/A
2013	None	N/A

NEWPORT TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required 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, 2013
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

NEWPORT TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Newport Township Non-Uniformed Pension Plan
Luzerne County
1002 Center Street
Nanticoke, PA 18634

Mr. Paul Czapracki President, Board of Township Commissioners

Mr. Richard V. Zika Township Manager

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.