COMPLIANCE AUDIT

Mount Pleasant Township Police Pension Plan

Washington County, Pennsylvania

For the Period

January 1, 2011 to December 31, 2013

March 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 Supervisors
Mount Pleasant Township
Washington County
Hickory, PA 15340

We have conducted a compliance audit of the Mount Pleasant Township Police Pension Plan for the period January 1, 2011 to December 31, 2013. We also evaluated compliance with some requirements for the 2014 year 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 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 that there were no benefit calculations prepared for the years covered by our audit period.

- We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

- We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations by testing the refund disbursed to the plan member during the current audit period.

- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the transfer made during the audit period.

The Mount Pleasant Township Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Mount Pleasant 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 Mount Pleasant 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 48.9% as of January 1, 2013**, which is the most recent data available. 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 Mount Pleasant Township and, where appropriate, their responses have been included in the report. We would also like to thank township officials for the cooperation extended to us during the conduct of the audit.

March 10, 2015

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 Mount Pleasant Township Police 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Mount Pleasant Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 123, effective January 1, 2011, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. Prior to January 1, 2011, township police officers were members of the township's non-uniformed pension plan, a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2005 AO, as amended, established July 1, 1976. In 2011, three police officers and assets in the amount of $33,460 were transferred from the non-uniformed pension plan to the new police pension plan. Active members are required to contribute 5 percent of compensation to the plan, however, member contributions were eliminated from January 1 through September 30, 2011. As of December 31, 2013, the plan had 3 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

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

Eligibility Requirements:

Normal Retirement	Age 55 with 3 years of service if hired prior to January 1, 2011; age 55 with 12 years of service if hired on or after January 1, 2011.
Early Retirement	Voluntary early retirement available after 24 years of service. Involuntary available after 8 years of service.
Vesting	A member is 100% vested after 3 years of service if hired prior to January 1, 2011; 12 years of service if hired on or after January 1, 2011.

Retirement Benefit:

Benefit equals 2.0% times credited service times Final Average Salary (FAS) but in no event is the basic benefit greater than 50% of FAS. FAS based upon last 3 years annualized salary, there is no Social Security offset.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	If eligible to retire or if retired at time of death, spouse receives 50% of member's benefit.

Service Related Disability Benefit:

A 50% disability is provided to a member who is unable to perform gainful employment regardless of age or service.

Non-Service Related Disability Benefit:

A 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

Finding - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 1 eligible police officer (2 units) and understated payroll by $2,016 on the Certification Form AG 385 filed in 2013. In addition, the township failed to certify 1 eligible police officer (2 units) and understated payroll by $5,034 in 2014. Furthermore, the establishment date for the police pension plan listed on the Certification Forms AG 385 filed in 2012, 2013, and 2014 resulted in the police pension plan data not being factored into the township's state aid allocations for the years 2012 and 2013.

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

In addition, the instructions that accompany Certification Form AG 385 require the date the plan was established to be reported. That date is then used to determine whether the plan is eligible for state aid. Pursuant to Act 205, at Section 402(e)(2), if a plan is established after December 31, 1984, the plan has to be maintained by the municipality for at least three plan years prior to becoming eligible for state aid. However, since the township's police pension plan was established by transferring members and assets from the existing non-uniformed pension plan, the township was not required to maintain (fund) the plan for at least three plan years prior to eligibility for state aid.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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.

The township's state aid allocation for 2012 was $28,608 based on the non-uniformed pension plan's number of units (8 units at $3,576). However, based on the correct information, the township was entitled to an allocation based on the total pension costs of the police and non-uniformed pension plans in the amount of $41,482. Therefore, the township received an underpayment of state aid in the amount of $12,874 in 2012.

The township's state aid allocation for 2013 was based on the non-uniformed pension plan costs in the amount of $29,397. However, based on the correct information, the township was entitled to an allocation based on the total pension costs of the police and non-uniformed pension plans in the amount of $40,344. Therefore, the township received an underpayment of state aid in the amount of $10,947 in 2013.

Finding – (Continued)

The township's state aid allocation for 2014 was based on the total pension costs of the police and non-uniformed pension plans in the amount of $46,517. Based on the correct information, the township was entitled to an allocation based on the total pension costs of the police and non-uniformed pension plans in the amount of $47,170. Therefore, the township received an underpayment of state aid in the amount of $653 in 2014.

Consequently, the total underpayment of state aid for the years 2012, 2013, and 2014 was $24,474.

Although the township will be reimbursed for the underpayment of state aid due to the township's certification errors, the full amount of the 2012, 2013, and 2014 state aid 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 establish adequate internal control procedures, such as having at least 2 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.

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

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

MOUNT PLEASANT 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)	(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)]
01-01-11	$ 33,460	$ 65,969	$ 32,509	50.7%	$ 97,561	33.3%
01-01-13	55,846	114,306	58,460	48.9%	104,798	55.8%

The Department typically presents this data as of the plan's actuarial valuation dates for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

MOUNT PLEASANT 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.

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.

MOUNT PLEASANT 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	$ 8,964	100.0%
2012	5,765	100.0%
2013	10,682	100.4%

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

MOUNT PLEASANT TOWNSHIP POLICE 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	Level dollar, closed
Remaining amortization period	17 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.5%
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%

MOUNT PLEASANT TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
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