

LIMITED PROCEDURES ENGAGEMENT

Greenfield Township Non-Uniformed Pension Plan Erie County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

September 2018



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
Greenfield Township
Erie County
North East, PA 16428

We conducted a Limited Procedures Engagement (LPE) of the Greenfield Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 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 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 retirement benefits calculated for plan members who retired during the engagement 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Greenfield Township Non-Uniformed 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 finding further discussed later in this report:

Finding – Incorrect Data Certified On Actuarial Valuation Report

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 Greenfield 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.

August 28, 2018



EUGENE A. DEPASQUALE
Auditor General

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GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data Certified On Actuarial Valuation Report

Condition: The actuarial valuation report form PC-203C with a valuation date of January 1, 2017, submitted to the former Public Employee Retirement Commission (PERC), contains incorrect earnings information reported on Line 48 of the report.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Additionally, according to PMRS officials, employees shall file separation paperwork upon their termination of service with the municipality. If they do not file required paperwork, the employee shall be considered an active member of the pension plan and their potential earnings shall be reported in the actuarial valuation report.

Cause: A member who terminated in March 2015, along with plan officials, failed to ensure that the necessary paperwork was appropriately filed with the plan custodian, PMRS, notifying them of the termination. In addition, the township lacked adequate procedures to review and verify the information reported on the actuarial valuation report prepared by the actuary and plan officials failed to detect the error prior to the conduct of this engagement.

Effect: As a result, plan officials over reported \$55,000 in earnings on Line 48 of the actuarial valuation report with a valuation date of January 1, 2017, even though the township did not report any earnings for this individual, who previously terminated services with the township during 2015. Because the municipality's annual state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of the incorrect information may result in the municipality receiving state aid allocations for the years 2018 and 2019 in excess of entitlement under the act based on the plan's normal cost percentage of 7.54%. However, the impact of the incorrect data on the township's aforementioned allocations could not be determined as of the date of this report because state aid has not yet been determined and/or allocated to participating municipalities for those years.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that plan officials contact the Municipal Pension Reporting Program (formerly PERC) to determine if a revised actuarial valuation report may be filed. If a revised report is prepared and accepted by the Municipal Pension Reporting Program, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

If a revised report is not accepted, upon receipt of the township's 2018 state aid allocation, we recommend plan officials contact the Municipal Pension Reporting Program at 1-800-882-5073 or e-mail Comptroller@PaAuditor.gov to determine the impact of the certification error on the township's state aid allocation and timely resolve the matter, accordingly.

We further recommend that, in the future, plan officials review and verify all information included in subsequent actuarial valuation reports properly reflect the status of the pension plan.

Management's Response: Municipal officials agreed with the finding without exception. In addition, township officials contacted PMRS officials regarding the reported earnings and were unclear not only as to why the wages were reported for this terminated plan member, but also why the reported earnings exceeded the wages this individual would have earned had the individual remained employed. The township was not satisfied and disagreed with the explanation they received from their custodian and will comply with the recommendation, accordingly.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next engagement of the plan.

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

The supplementary information contained on Pages 9 and 10 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, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 21,496	\$ 23,804	\$ 24,350
Interest	22,157	25,121	27,141
Difference between expected and actual experience	15,933	-	(6,444)
Changes of assumptions	-	(5,216)	13,142
Benefit payments, including refunds of member contributions	(9,459)	(4,556)	(10,328)
Net Change in Total Pension Liability	<u>50,127</u>	<u>39,153</u>	<u>47,861</u>
Total Pension Liability – Beginning	<u>390,171</u>	<u>440,298</u>	<u>479,451</u>
Total Pension Liability - Ending (a)	<u><u>\$ 440,298</u></u>	<u><u>\$ 479,451</u></u>	<u><u>\$ 527,312</u></u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 10,161	\$ 9,812	\$ 12,512
Contributions – PMRS assessment	-	40	-
Contributions – employee	10,584	12,837	13,377
PMRS investment income	22,635	24,959	25,695
Market value investment income	1,467	(27,134)	9,183
Benefit payments, including refunds of member contributions	(9,459)	(4,556)	(10,328)
PMRS administrative expense	(200)	(220)	(180)
Additional administrative expense	(868)	(1,040)	(1,259)
Net Change in Plan Fiduciary Net Position	<u>34,320</u>	<u>14,698</u>	<u>49,000</u>
Plan Fiduciary Net Position – Beginning	<u>401,204</u>	<u>435,524</u>	<u>450,222</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 435,524</u></u>	<u><u>\$ 450,222</u></u>	<u><u>\$ 499,222</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 4,774</u></u>	<u><u>\$ 29,229</u></u>	<u><u>\$ 28,090</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.92%	93.90%	94.67%
Estimated Covered Employee Payroll	\$ 176,049	\$ 185,625	\$ 202,789
Net Pension Liability as a Percentage of Covered Employee Payroll	2.71%	15.75%	13.85%

* 2014 employer contributions include a \$332 actuarial surplus used for annual billing and \$20 deposit directed towards administrative expense. 2016 employer contributions include a \$17 miscellaneous deposit to plan.

GREENFIELD TOWNSHIP NON-UNIFORMED 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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability - 12/31/14	\$ 57,608	\$ 4,774	\$ (39,835)
Net Pension Liability - 12/31/15	\$ 90,082	\$ 29,229	\$ (22,046)

In addition, the following presents the net pension liability of the township as of December 31, 2016, calculated using the discount rate of 5.25%, 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 (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 86,089	\$ 28,090	\$ (21,582)

GREENFIELD 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, 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	\$ 367,777	\$ 363,211	\$ (4,566)	101.3%
01-01-15	442,831	440,298	(2,533)	100.6%
01-01-17	531,389	527,312	(4,077)	100.8%

GREENFIELD 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.

GREENFIELD 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
2012	\$ 10,539	100.0%
2013	6,049	101.8%
2014	6,587	149.2%
2015	9,812	100.7%
2016	12,495	100.1%
2017	12,734	101.2%

GREENFIELD TOWNSHIP NON-UNIFORMED 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	N/A
Remaining amortization period	N/A
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustment	2.8% per year, subject to plan limitations

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Sal Fedele, Jr.
Chairman, Board of Township Supervisors

Ms. Renee M. Wagner
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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