

COMPLIANCE AUDIT

Shenango Township Police Pension Plan Lawrence County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

March 2020



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
Shenango Township
Lawrence County
New Castle, PA 16101

We have conducted a compliance audit of the Shenango Township Police Pension Plan for the period January 1, 2016 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 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.
- We determined whether the terms of the contractual agreement with the Pennsylvania State Association of Boroughs 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango 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 Shenango 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 Shenango 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 14, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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 Shenango 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 Shenango Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1 of 2017 and a joinder agreement effective January 1, 2017, adopted pursuant to Act 600, as amended. Prior to January 1, 2017, the plan was locally controlled by the provisions of Ordinance No. 3 of 2014 and a joinder agreement effective January 1, 2012, adopted pursuant to Act 600, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established December 1, 1982. Active members are required to contribute 5 percent of contributions to the plan; however, member contributions were eliminated during the audit period. As of December 31, 2018, the plan had 7 active members, no terminated members eligible for vested benefits in the future, and 3 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 55 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of the average monthly pay based on the final 60 months of service, plus an additional 2.0% of the retirement benefit multiplied by years of service in excess of 25 (maximum \$100).

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:

Benefit is 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

SHENANGO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Shenango Township has complied with the prior audit recommendation concerning the following:

- Failure To Formally Adopt Plan Benefit Provisions

Municipal officials adopted Ordinance No. 1 of 2017 and a joinder agreement effective January 1, 2017, which established plan benefits in accordance with the provisions of Act 600.

SHENANGO 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, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 47,733	\$ 60,165	\$ 62,572	\$ 78,862	\$ 82,016
Interest	56,108	64,266	69,786	82,362	90,134
Change of benefit terms	-	-	-	-	-
Difference between expected and actual experience	-	31,145	-	92,129	-
Changes of assumptions	-	23,390	-	3,654	-
Benefit payments, including refunds of member contributions	(34,836)	(34,836)	(34,836)	(34,836)	(34,836)
Net Change in Total Pension Liability	69,005	144,130	97,522	222,171	137,314
Total Pension Liability - Beginning	904,813	973,818	1,117,948	1,215,470	1,437,641
Total Pension Liability - Ending (a)	<u>\$ 973,818</u>	<u>\$ 1,117,948</u>	<u>\$ 1,215,470</u>	<u>\$ 1,437,641</u>	<u>\$ 1,574,955</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ -	\$ -	\$ -	\$ 3,545	\$ 19,280
Contributions - state Aid	56,530	60,703	82,936	87,177	98,372
Net investment income	29,565	(29,434)	58,004	119,725	(61,234)
Benefit payments, including refunds of member contributions	(34,836)	(34,836)	(34,836)	(34,836)	(34,836)
Administrative expense	(8,497)	(4,341)	(200)	(12,730)	(11,918)
Net Change in Plan Fiduciary Net Position	42,762	(7,908)	105,904	162,881	9,664
Plan Fiduciary Net Position - Beginning	906,211	948,973	941,065	1,046,969	1,209,850
Plan Fiduciary Net Position - Ending (b)	<u>\$ 948,973</u>	<u>\$ 941,065</u>	<u>\$ 1,046,969</u>	<u>\$ 1,209,850</u>	<u>\$ 1,219,514</u>
Net Pension Liability - Ending (a-b)	<u>\$ 24,845</u>	<u>\$ 176,883</u>	<u>\$ 168,501</u>	<u>\$ 227,791</u>	<u>\$ 355,441</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.4%	84.2%	86.1%	84.2%	77.4%
Estimated Covered Employee Payroll	\$ 324,856	\$ 340,000	\$ 401,634	\$ 448,706	\$ 498,846
Net Pension Liability as a Percentage of Covered Employee Payroll	7.6%	52.0%	42.0%	50.8%	71.3%

SHENANGO 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 6.0%, 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 (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability - 12/31/14	\$ 174,173	\$ 24,845	\$ (99,809)
Net Pension Liability - 12/31/15	\$ 355,106	\$ 176,883	\$ 30,529
Net Pension Liability - 12/31/16	\$ 362,353	\$ 168,501	\$ 9,129
Net Pension Liability - 12/31/17	\$ 461,829	\$ 227,791	\$ 35,705
Net Pension Liability - 12/31/18	\$ 610,366	\$ 355,441	\$ 145,954

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	\$ 56,530	\$ 56,530	\$ -	\$ 324,856	17.40%
2015	59,053	60,703	(1,650)	340,000	17.85%
2016	82,936	82,936	-	401,634	20.65%
2017	90,722	90,722	-	448,706	20.22%
2018	117,652	117,652	-	498,846	23.58%

SHENANGO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.06%)
2017	11.69%
2016	6.03%
2015	(3.15%)
2014	3.32%

SHENANGO 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	\$ 921,700	\$ 846,663	\$ (75,037)	108.9%
01-01-15	948,973	1,028,353	79,380	92.3%
01-01-17	1,046,969	1,311,253	264,284	79.8%

SHENANGO 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.

SHENANGO 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	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.0%

SHENANGO 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. Frank R. Augustine
Chairman, Board of Township Supervisors

Mr. Albert D. Burick, III
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