

COMPLIANCE AUDIT

East Cocalico Township Police Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

September 2019



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
East Cocalico Township
Lancaster County
Denver, PA 17517

We have conducted a compliance audit of the East Cocalico 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 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 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 total 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 whether retirement benefits calculated for all three 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 benefit 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 the lone plan member 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 due to the retired individual 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 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.

East Cocalico Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for 2015 and 2016 and its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania for 2017 and 2018, 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 East Cocalico 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 East Cocalico 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 East Cocalico 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.

September 20, 2019



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 East Cocalico 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 East Cocalico Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2011-11, as amended, and a separately executed plan agreement with the plan's custodian, 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 compensation to the plan. As of December 31, 2018, the plan had 15 active members, 2 terminated members eligible for vested benefits in the future, and 13 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.

Retirement Benefit:

A monthly benefit equal to 50% of average compensation times accrued benefit adjustment. Average compensation is monthly average of total pay received for 36 latest compensation months. Accrued benefit adjustment is quotient of the number of complete months of service on a given date, divided by the number of completed months of service on normal retirement date.

Survivor Benefit:

If death occurs in the line of duty, the amount paid to the spouse or dependent child is equal to 100% of the final one month salary preceding the date of death. In the event of an off-duty death or death after retirement, the amount paid to the spouse or dependent child is equal to 50% of participant's vested pension.

Service Related Disability Benefit:

A monthly benefit equal to 50% of the member's final one month salary prior to the date of disability, offset by Social Security benefits.

EAST COCALICO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

East Cocalico Township has complied with the prior audit recommendation concerning the following:

· Unauthorized Provision For A Killed-In-Service Provision

The township eliminated the unauthorized killed-in-service benefit provision as recommended.

EAST COCALICO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 7 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	\$ 286,347	\$ 297,716	\$ 246,812
Interest	711,415	758,308	774,518
Difference between expected and actual experience	57,584	(472,179)	(91,177)
Changes of assumptions	275,585	10,518	1,604,737
Benefit payments, including refunds of member contributions	(243,717)	(275,234)	(359,912)
Net Change in Total Pension Liability	<u>1,087,214</u>	<u>319,129</u>	<u>2,174,978</u>
Total Pension Liability – Beginning	<u>9,996,701</u>	<u>11,083,915</u>	<u>11,403,044</u>
Total Pension Liability – Ending (a)	<u><u>\$ 11,083,915</u></u>	<u><u>\$ 11,403,044</u></u>	<u><u>\$ 13,578,022</u></u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 541,932	\$ 519,414	\$ 526,539
Contributions – member	82,304	74,449	69,008
Net investment income	462,070	(73,974)	537,772
Benefit payments, including refunds of member contributions	(243,717)	(275,234)	(359,912)
Administrative expense	(19,147)	(21,697)	(10,009)
Other	8,725	-	-
Net Change in Plan Fiduciary Net Position	<u>832,167</u>	<u>222,958</u>	<u>763,398</u>
Plan Fiduciary Net Position – Beginning	<u>8,567,457</u>	<u>9,399,624</u>	<u>9,622,582</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 9,399,624</u></u>	<u><u>\$ 9,622,582</u></u>	<u><u>\$ 10,385,980</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,684,291</u></u>	<u><u>\$ 1,780,462</u></u>	<u><u>\$ 3,192,042</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.80%	84.39%	76.49%
Estimated Covered Employee Payroll	\$ 1,532,385	\$ 1,277,353	\$ 1,294,456
Net Pension Liability as a Percentage of Covered Employee Payroll	109.91%	139.39%	246.59%

EAST COCALICO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 246,616	\$ 254,631
Interest	785,844	635,790
Changes of assumptions	(547,278)	-
Benefit payments, including refunds of member contributions *	<u>(359,912)</u>	<u>(6,722,841)</u>
Net Change in Total Pension Liability	125,270	(5,832,420)
Total Pension Liability – Beginning	<u>13,578,022</u>	<u>12,703,292</u>
Total Pension Liability – Ending (a)	<u><u>\$ 13,703,292</u></u>	<u><u>\$ 7,870,872</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 494,580	\$ 597,129
Contributions – member	68,114	68,268
Net investment income	1,402,795	(500,322)
Benefit payments, including refunds of member contributions	(372,406)	(414,282)
Administrative expense	-	(24,612)
Other *	<u>(15,948)</u>	<u>(6,308,559)</u>
Net Change in Plan Fiduciary Net Position	1,577,135	(6,582,378)
Plan Fiduciary Net Position – Beginning	<u>10,385,980</u>	<u>11,963,115</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 11,963,115</u></u>	<u><u>\$ 5,380,737</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,740,177</u></u>	<u><u>\$ 2,490,135</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.30%	68.36%
Estimated Covered Employee Payroll	\$ 1,338,518	\$ 1,373,896
Net Pension Liability as a Percentage of Covered Employee Payroll	130.01%	181.25%

* On November 21, 2018, the township purchased a single premium group annuity contract to pay the monthly pension benefits to 12 retirees under the terms and conditions of the surrendered group annuity contract maintained with the prior custodian.

EAST COCALICO 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, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability	\$ 3,279,328	\$ 1,684,291	\$ 372,299

It was noted that the discount rate of the township's net pension liability was reduced to 6.75% as of December 31, 2015 and 2016 and 6.0% for December 31, 2017. However, no other net pension liability information relative to the discount rates was available.

The following presents the net pension liability of the township as of December 31, 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	\$ 4,492,321	\$ 2,490,135	\$ 833,685

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	\$ 529,433	\$ 550,657	\$ (21,224)	\$1,532,385	35.93%
2015	519,414	519,414	-	1,277,353	40.66%
2016	526,539	526,539	-	1,294,456	40.68%
2017	494,580	494,580	-	1,338,519	36.95%
2018	591,823	597,129	(5,306)	1,373,896	43.46%

EAST COCALICO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.44%)
2017	5.57%
2016	(0.78%)
2015	5.32%
2014	5.32%

EAST COCALICO 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	\$ 7,175,977	\$ 9,467,931	\$ 2,291,954	75.8%
01-01-15	9,243,755	11,204,815	1,961,060	82.5%
01-01-17	10,851,768	13,030,744	2,178,976	83.3%

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 over a four-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.

EAST COCALICO 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.

EAST COCALICO 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	7 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases *	3.25%
Cost-of-living adjustments	3.0%

* Includes inflation at 2.00%

EAST COCALICO 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. Alan R. Fry
Chairman, Board of Township Supervisors

Mr. Romao R. Carrasco
Vice-Chairman, Board of Township Supervisors

Mr. Douglas B. Mackley
Township Supervisor

Ms. Elizabeth Dorneman
Financial Administrator

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