

COMPLIANCE AUDIT

Parks Township Police Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

February 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Parks Township
Armstrong County
North Vandergrift, PA 15690

We have conducted a compliance audit of the Parks Township Police Pension Plan for the period January 1, 2014 to December 31, 2016. 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 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2011, January 1, 2013, and the January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the one transfer made during the audit period and through the completion of our fieldwork procedures.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Parks 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 Parks 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 – Failure To Properly Determine The Minimum Municipal
Obligation Of The Plan


As previously noted, the objective of our audit of the Parks Township Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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 historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 85.5% as of January 1, 2011, to a ratio of 68.7% as of January 1, 2015**, which is the most recent data available. **Based on this information, the former Public Employee Retirement Commission issued a notification that the township is currently in Level II moderate distress status.** 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 Parks 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 15, 2017


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 Parks 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Parks Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 08-31-66, as amended, adopted pursuant to Act 69. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established August 31, 1966. Active members are not required to contribute to the plan. As of December 31, 2016, the plan had 2 active members, no terminated members eligible for vested benefits in the future, and 1 retiree receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2016, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Completion of 20 years of service.

Early Retirement None

Vesting 100% after 12 years of service.

Retirement Benefit:

A monthly benefit of 67% of the monthly compensation at time of retirement.

Survivor Benefit:

Before Retirement Eligibility None

After Retirement Eligibility For those participants hired before January 1, 2008 – The benefit the participant was receiving or entitled to receive is payable to the spouse until death or remarriage.

For those participants hired on or after January 1, 2008 – No survivor benefit is provided.

Service Related Disability Benefit:

After 10 years of service, 50% of normal pension is payable; after the completion of 15 years of service, 75% of the normal pension is payable; after 20 years of service, the participant is entitled to a full normal retirement benefit.

PARKS TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Determine The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine the minimum municipal obligation (MMO) of the police pension plan for the years 2015 and 2017, as required by Act 205. The municipality determined and budgeted the 2015 and 2017 MMOs based on actuarial valuation reports that were not the most recently filed with the former Public Employee Retirement Commission (PERC) at the time the MMOs were prepared.

The 2015 MMO was prepared in September of 2014 based on data that was included in the January 1, 2011 actuarial valuation report, instead of the January 1, 2013 actuarial valuation report that had been submitted to the former PERC in March of 2014. The 2017 MMO was prepared in September of 2016 based on data that was included in the January 1, 2013 actuarial valuation report, instead of the January 1, 2015 actuarial valuation report that had been submitted to the former PERC in March of 2016.

The pension plan's amortization contribution requirement increased substantially from the January 1, 2011 actuarial valuation report to the January 1, 2013 and 2015 actuarial valuation reports. Therefore, based upon estimates prepared by this Department utilizing data from the correct actuarial valuation reports, the municipality had an unpaid MMO balance of \$17,321 for the year 2015 and the municipality underestimated the 2017 MMO calculation by \$25,431. We note that the 2017 MMO is not due until December 31, 2017.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to determining an MMO based upon an actuarial valuation report, the Pennsylvania Code, Title 16, Section 204.1(a) states, in part:

Under section 302 of the act (53 P. S. § 895.302), the minimum municipal obligation is based on the latest actuarial valuation report prepared under the requirements of Chapter 2 of the act (53 P. S. § § 895.201—895.208).

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

PARKS TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the data used in the 2015 and 2017 MMO determinations was consistent with the most current data contained in the actuarial valuation reports that were certified by the former PERC.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2015 MMO by the December 31, 2015, deadline, the municipality must add the 2015 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO balance of \$17,321 due to the police pension plan for the year 2015, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan. We also recommend that the municipality pay the recalculated 2017 MMO by the December 31, 2017 due date.

In addition, we recommend that plan officials establish adequate internal control procedures to ensure that future MMOs are determined in accordance with Act 205 provisions and applicable regulations.

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

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

PARKS 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)
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)
01-01-11	\$ 669,301	\$ 782,988	\$ 113,687	85.5%
01-01-13	695,851	910,689	214,838	76.4%
01-01-15	741,943	1,080,589	338,646	68.7%

PARKS 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.

PARKS 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	\$ 35,420	100.0%
2012	34,723	100.0%
2013	44,516	100.0%
2014	45,935	100.0%
2015	47,477	100.0%
2016	65,051	100.0%

PARKS 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	4.5%
Projected salary increases *	4.0%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.0%

PARKS 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. Franklin L. Shannon
Chairman, Board of Township Supervisors

Mr. Paul R. Duriancik
Vice Chairman, Board of Township Supervisors

Mr. Thomas M. Filo, III
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