

# COMPLIANCE AUDIT

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## Raccoon Township Police Pension Plan Beaver County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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April 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
Raccoon Township  
Beaver County  
Aliquippa, PA 15001

We have conducted a compliance audit of the Raccoon Township Police Pension Plan for the period January 1, 2015 to December 31, 2017. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and 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 the lone plan member 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined 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.
- 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Raccoon 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 Raccoon 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 – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit

The Finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 55.8% as of January 1, 2017**, which is the most recent data available. We encourage township officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Raccoon 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.

April 2, 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 Raccoon 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 Raccoon Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 93-1, 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 September 9, 1974. Active members are required to contribute 5 percent of compensation to the plan, however the contribution rate was reduced to 3% via annual resolutions. As of December 31, 2017, the plan had 4 active members, no terminated members eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of service (1 current police officer may retire under the provisions of Ordinance No. 90-1 at age 65 and 20 years of service).
Early Retirement	Eligible with 20 or more years of service.
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of participant's last 36 months average monthly compensation. The pension shall be offset by 30% of the Primary Social Security amount available to the participant at the age of 65.

### 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. If no spouse, or if spouse subsequently dies, the benefit shall apply to children under age 18, or if attending college, under or attaining 23.

### Service Related Disability Benefit:

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

RACCOON TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Raccoon Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Unauthorized Provision For A Killed In Service Benefit



RACCOON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit**

Condition: As disclosed in our prior audit report, Racoon Township maintains a police pension plan governed by the provisions of Act 600, as amended. Prior to the adoption of Act 51 of 2009, Act 600 contained a mandatory killed in service benefit provision; however, Act 51 specifically repealed the section of Act 600 that referenced the mandatory killed in service benefit.

Section 1 D of Ordinance No. 02-6 states:

The surviving spouse of a member of the police force who is killed in service, or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of 18 years or if attending college, under or attaining the age of 23 years, of the member of the police force shall be entitled to receive a pension calculated at 100 per centum of the member's salary at the time of death.

Criteria: Section 1(a) of Act 51 of 2009 states, in part:

In the event a law enforcement officer, ambulance service or rescue squad member, firefighter, certified hazardous material response team member of the National Guard dies as a result of the performance of his duties, such political subdivision, Commonwealth agency or, in the case of National Guard members, the Adjutant General, or, in the case of a member of a Commonwealth law enforcement agency, the authorized survivor of the agency head, within 90 days from the date of death, shall submit certification of such death to the Commonwealth.

RACCOON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

In addition, Section 1 (d) of Act 51 of 2009 states, in part:

...the Commonwealth shall, from moneys payable out of the General Fund, pay to the surviving spouse or, if there is no surviving spouse, to the minor children of the paid firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty the sum of \$100,000, adjusted in accordance with subsection (f) of this section, and an amount equal to the monthly salary, adjusted in accordance with subsection (f) of this section, of the deceased paid firefighter, ambulance service or rescue squad member or law enforcement officer, less any workers' compensation or pension or retirement benefits paid to such survivors, and shall continue such monthly payments until there is no eligible beneficiary to receive them. For purpose of this subsection, the term "eligible beneficiary" means the surviving spouse or the child or children under the age of eighteen years or, if attending college, under the age of twenty-three years, of the firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty. When no spouse or minor children survive, a single sum of \$100,000, adjusted in accordance with subsection (f) of this section, shall be paid to the parent or parents of such firefighter, ambulance service member, rescue squad member or law enforcement officer. (Emphasis added.)

Furthermore, Section 2 of Act 51 of 2009 states:

Repeals are as follows:

- (1) The General Assembly declares that the repeals under paragraph (2) are necessary to effectuate the amendment of section 1 of the act.
- (2) The following parts of acts are repealed:
  - (i) Section 5(e)(2) of the act of May 29, 1956 (1955 P.L.1804, No. 600), referred to as the Municipal Police Pension Law.
  - (ii) Section 202(b)(3)(vi) and (4)(vi) of the act of December 18, 1984 (P.L.1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

Therefore, since Act 51 specifically repealed the killed in service provision of Act 600 and the funding provisions for the killed in service benefit that were contained in Act 205, the provision of a killed in service benefit is no longer authorized.

RACCOON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Cause: On June 6, 2017, plan officials attempted to amend Ordinance No. 02-6 to eliminate the killed-in-service benefit via Resolution No. R-9-2017. However, the Pennsylvania Superior Court, in Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, held that an ordinance may be amended only by another ordinance and not by a resolution.

Effect: Since Section 1 of Act 51 provides that the Commonwealth is obligated to pay the killed in service benefit less any pension or retirement benefits paid to eligible survivors, the continued provision of a killed in service benefit could result in the pension plan obligated to pay a benefit that is no longer authorized by Act 600 and would have been paid entirely by the Commonwealth absent such provision.

Recommendation: We again recommend that the municipality review the plan's killed in service benefit with its solicitor in conjunction with Act 51 of 2009 and eliminate this unauthorized benefit provision at its earliest opportunity to do so.

Management Response: Municipal officials agreed with the finding without exception and, in conjunction with their solicitor, are working to draft and adopt an amending ordinance to eliminate the killed in service provision from their plan document.

Auditor Conclusion: Considering the plan's funding status, we urge township officials to comply with the finding recommendation at its earliest opportunity to do so, especially in light of the fact that the Commonwealth has assumed the responsibility of paying the mandated killed in service benefit.

Additionally, based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be subject to verification through our next audit.

RACCOON TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 7 through 9 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 10,079	\$ 10,836
Interest	56,143	58,740
Change of benefit terms	-	45,529
Difference between expected and actual experience	-	(40,727)
Changes of assumptions	-	31,907
Benefit payments, including refunds of member contributions	(22,078)	(22,454)
Net Change in Total Pension Liability	<u>44,144</u>	<u>83,831</u>
Total Pension Liability – Beginning	702,744	746,888
Total Pension Liability – Ending (a)	<u>\$ 746,888</u>	<u>\$ 830,719</u>
Plan Fiduciary Net Position		
Contributions – State Aid	\$ 30,981	\$ 31,367
Contributions – employer	25,563	29,683
Contributions – member	5,378	5,799
Net investment income	7,709	(16,374)
Benefit payments, including refunds of member contributions	(22,078)	(22,454)
Administrative expense	(1,400)	(3,000)
Net Change in Plan Fiduciary Net Position	<u>46,153</u>	<u>25,021</u>
Plan Fiduciary Net Position – Beginning	389,351	435,504
Plan Fiduciary Net Position – Ending (b)	<u>\$ 435,504</u>	<u>\$ 460,525</u>
Net Pension Liability – Ending (a-b)	<u>\$ 311,384</u>	<u>\$ 370,194</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	58.31%	55.44%
Estimated Covered Employee Payroll	\$ 179,375	\$ 180,084
Net Pension Liability as a Percentage of Covered Employee Payroll	173.59%	205.57%

RACCOON TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 11,324	\$ 20,597
Interest	62,310	70,341
Difference between expected and actual experience	-	26,089
Changes of assumptions	-	30,455
Benefit payments, including refunds of member contributions	<u>(22,499)</u>	<u>(42,232)</u>
Net Change in Total Pension Liability	51,135	105,250
Total Pension Liability – Beginning	<u>830,719</u>	<u>881,854</u>
Total Pension Liability – Ending (a)	<u>\$ 881,854</u>	<u>\$ 987,104</u>
Plan Fiduciary Net Position		
Contributions – State Aid	\$ 36,843	\$ 36,706
Contributions – employer	24,674	33,528
Contributions – member	6,565	6,887
Net investment income	19,706	67,390
Benefit payments, including refunds of member contributions	<u>(22,499)</u>	<u>(42,232)</u>
Administrative expense	<u>(1,800)</u>	<u>(3,200)</u>
Net Change in Plan Fiduciary Net Position	63,489	99,079
Plan Fiduciary Net Position – Beginning	<u>460,525</u>	<u>524,014</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 524,014</u>	<u>\$ 623,093</u>
Net Pension Liability – Ending (a-b)	<u>\$ 357,840</u>	<u>\$ 364,011</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	59.42%	63.12%
Estimated Covered Employee Payroll	\$ 197,988	\$ 209,302
Net Pension Liability as a Percentage of Covered Employee Payroll	180.74%	173.92%

RACCOON 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, 2015, 2016 and 2017, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/15	\$ 458,063	\$ 370,194	\$ 295,134
Net Pension Liability – 12/31/16	\$ 446,399	\$ 357,840	\$ 282,133
Net Pension Liability – 12/31/17	\$ 473,522	\$ 364,011	\$ 270,642

SCHEDULE OF INVESTMENT RETURN

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

2017	13.01%
2016	4.27%
2015	(3.78%)

RACCOON 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	\$ 309,634	\$ 662,140	\$ 352,506	46.8%
01-01-15	435,504	783,597	348,093	55.6%
01-01-17	524,014	938,398	414,384	55.8%

RACCOON 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.



RACCOON 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
2012	\$ 48,714	100.0%
2013	56,097	100.0%
2014	56,544	100.0%
2015	61,050	100.0%
2016	61,517	100.0%
2017	70,234	100.0%

RACCOON 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	Market value.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	3.0%

RACCOON 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. Daniel C. Cain**  
Chairman, Board of Township Supervisors

**Mr. Edward Malloy**  
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