

COMPLIANCE AUDIT

Washington Township Police Pension Plan Franklin County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

September 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Township Supervisors
Washington Township
Franklin County
Waynesboro, PA 17268

We have conducted a compliance audit of the Washington Township Police Pension Plan for the period January 1, 2019 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits recalculated for plan members who vested during the prior audit period were properly determined in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the vested individuals and comparing these amounts to supporting documentation evidencing amounts determined for the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, respectively, in accordance with Act 205 and whether selected information provided on these reports are 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 provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Washington Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for years ended December 31, 2019, 2020, and 2021, 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.

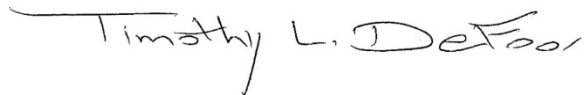
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Washington Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Washington 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 – Incorrect Benefit Calculations for Vested Members

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 Washington Township and, where appropriate, their responses have been included in the report.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
September 11, 2023

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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.

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 Washington Township Police Pension Plan is also governed by implementing regulations 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 Washington Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 177, as amended, 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 five (5) percent of compensation to the plan; however, member contributions were eliminated during the audit period. As of December 31, 2022, the plan had 11 active members, 2 terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

WASHINGTON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Benefit Calculations for Vested Members

Condition: In the prior audit, the township was notified via verbal observation that the final monthly vested pension benefits for two members who elected to vest on November 2, 2017, and September 28, 2018, respectively, were not adequately determined in accordance with the plan’s governing document. The benefit calculations for the vested members did not include the correct final monthly average salary as prescribed in the plan document (*pension plan allows for accumulated leave payments earned within the most recent 36 months before retirement to be included in the calculation of the final average monthly salary*). It was recommended that the township consider recalculating the pension benefits; however, as of the date of this report, the township did not recalculate the vested pension benefits for these individuals.

Criteria: Section 2.04 of Article II of Ordinance No. 177, as amended, states, in part:

Deferred Vested Benefit. A Participant who has completed at least twelve (12) Years of Service shall be entitled to elect to receive a deferred Vested Benefit in lieu of a withdrawal of member contributions...Such a Deferred Vested Benefit shall be in an amount equal to the Accrued Benefit as of the date employment terminates as a police officer of Washington Township...

Section 1.01 of Article I of Ordinance No. 177, as amended, states, in part:

“Accrued Benefit Percentage” shall mean a fraction, the numerator of which represents the Participant’s total cumulative calendar months of Service earned to the date of determination, and the denominator of which represents the total possible calendar months of Service he could earn from his date of hire to his Normal Retirement Date... “Accrued Benefit” shall mean the Accrued Benefit Percentage times 50% of Final Average Monthly Compensation...

Further, Section 1.10 of Article I of Ordinance No. 218, which updated Ordinance No. 177, as amended, states, in part:

Final Average Monthly Compensation shall mean the Compensation of a Participant averaged over the Participant’s final 36 months of Service but “Compensation” for the purpose of calculating Final Average Monthly Compensation is limited to amounts that are permitted by the Auditor General’s Bulletin No. 2001-01, as clarified. In no event, will payment for any accumulated leave that was earned outside of the final 36 months of Service be considered Compensation for the purposes of calculating Final Average Monthly Salary.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that vested pension benefits were properly determined in accordance with the plan’s governing document and compliance with the prior recommendation.

WASHINGTON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The failure to determine benefits in accordance with provisions maintained in the governing document (*i.e., including accumulated leave earned during the final computation period*) when calculating the vested pension benefits for the former plan participants could result in vested members receiving future monthly pension benefits less than entitled (*\$60 per month, \$720 annually*) under the plan, as illustrated below:

	<u>Municipality Calculated Benefit</u>	<u>Recalculated Benefit</u>	<u>Monthly Underpayment</u>
Vested Employee 1	\$ 1,261	\$ 1,281	\$ 20
Vested Employee 2	<u>1,299</u>	<u>1,339</u>	<u>40</u>
Total:	<u>\$ 2,560</u>	<u>\$ 2,620</u>	<u>\$ 60</u>

Recommendation: We recommend that municipal officials adjust each member’s vested pension benefit in accordance with the provisions contained in the plan’s governing document.

We also recommend that the township establish adequate procedures to ensure future pension benefits are calculated in accordance with applicable provisions contained in the plan’s governing document.

Management’s Response: The township acknowledged the finding and with assistance from the plan’s actuary, has recalculated the future expected monthly pension benefits of the two vested members in accordance with the plan document.

Auditor’s Conclusion: Based on the management response, it appears the township has complied with the finding. Compliance will be evaluated during our next audit of the plan.

WASHINGTON 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, 2017, 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)
01-01-17	\$ 4,438,793	\$ 5,293,420	\$ 854,627	83.9%
01-01-19	4,746,352	5,723,359	977,007	82.9%
01-01-21	4,831,313	5,811,135	979,822	83.1%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a five-year period, subject to a corridor between 80 to 120 percent of the market value of assets. 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.

WASHINGTON 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.

WASHINGTON TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll*</u>
2013	\$ 204,267	\$ 204,267	\$ -	\$ 881,268	23.18%
2014	206,152	206,152	-	854,688	24.12%
2015	209,646	209,646	-	479,748	43.70%
2016	190,856	190,856	-	472,737	40.37%
2017	213,369	213,369	-	422,288	50.53%
2018	214,342	214,342	-	391,844	54.70%
2019	218,793	218,793	-	557,393	39.25%
2020	243,705	243,705	-	651,781	37.39%
2021	357,436	357,436	-	715,851	49.93%
2022	318,870	318,870	-		

* Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

WASHINGTON 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, 2021
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar
Remaining amortization period	7 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor of 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	3.50%
Cost-of-living adjustments	Annual increase equal to increase in the Consumer Price Index

* Includes inflation at 2.75%

WASHINGTON TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. C. Stewart McCleaf
Chairman, Board of Township Supervisors

Mr. Vernon Ashway
Chief Administrative Officer

Ms. Karen Hargrave
Secretary and Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.