

LIMITED PROCEDURES ENGAGEMENT

Crescent Township Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

January 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 Commissioners
Crescent Township
Allegheny County
Crescent, PA 15046

We conducted a Limited Procedures Engagement (LPE) of the Crescent Township Police Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period.
- 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 retirement benefits calculated for plan the member who retired during the engagement 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Crescent Township Police Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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 Crescent Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

December 28, 2018



EUGENE A. DEPASQUALE
Auditor General

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CRESCENT TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Inconsistent Pension Benefits

The municipality adopted an addendum to the Collective Bargaining Agreement, dated November 17, 2014, commencing on January 1, 2014 through December 31, 2018. The purpose of this addendum, specifically Sections 16.4 *Pension* and 16.5 *Spousal Benefit*, was to ensure that pension benefits were consistent with the provisions contained in the governing plan document, Ordinance No. 536.

CRESCENT TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 through 4 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	\$ 33,526	\$ 36,647
Interest	55,842	61,097
Difference between expected and actual experience	33,286	-
Changes of assumptions	-	(31,148)
Benefit payments, including refunds of member contributions	<u>(30,502)</u>	<u>(29,951)</u>
Net Change in Total Pension Liability	92,152	36,645
Total Pension Liability – Beginning	996,830	1,088,982
Total Pension Liability – Ending (a)	<u>\$ 1,088,982</u>	<u>\$ 1,125,627</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 21,995	\$ 28,970
Net investment income	70,351	13,031
Benefit payments, including refunds of member contributions	(30,502)	(29,951)
Administrative expense	<u>(2,243)</u>	<u>(2,583)</u>
Net Change in Plan Fiduciary Net Position	59,601	9,467
Plan Fiduciary Net Position – Beginning	1,014,852	1,074,453
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,074,453</u>	<u>\$ 1,083,920</u>
Net Pension Liability – Ending (a-b)	<u>\$ 14,529</u>	<u>\$ 41,707</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.67%	96.29%
Estimated Covered Employee Payroll	\$ 182,324	\$ 185,095
Net Pension Liability as a Percentage of Covered Employee Payroll	7.97%	22.53%

* 2014 employer contributions consist of state aid \$21,444 and actuarial surpluses amounting to \$551.

CRESCENT 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	\$ 24,139	\$ 36,411
Interest	62,425	67,322
Difference between expected and actual experience	46,634	-
Changes of assumptions	31,821	-
Benefit payments, including refunds of member contributions	(29,951)	(29,951)
Net Change in Total Pension Liability	<u>135,068</u>	<u>73,782</u>
Total Pension Liability – Beginning	1,125,627	1,260,695
Total Pension Liability – Ending (a)	<u>\$ 1,260,695</u>	<u>\$ 1,334,477</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 37,454	\$ 26,604
Net investment income	105,900	209,879
Benefit payments, including refunds of member contributions	(29,951)	(29,951)
Administrative expense	(3,226)	(3,116)
Net Change in Plan Fiduciary Net Position	<u>110,177</u>	<u>203,416</u>
Plan Fiduciary Net Position – Beginning	1,083,920	1,194,097
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,194,097</u>	<u>\$ 1,397,513</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 66,598</u>	<u>\$ (63,036)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.72%	104.72%
 Estimated Covered Employee Payroll	\$ 154,263	\$ 229,998
 Net Pension Liability as a Percentage of Covered Employee Payroll	43.17%	(27.41%)

CRESCENT 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 and 2015, calculated using the discount rate of 5.50%, 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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 178,327	\$ 14,529	\$ (120,835)
Net Pension Liability - 12/31/15	\$ 166,367	\$ 41,707	\$ (60,828)

In addition, the following presents the net pension liability of the township as of December 31, 2016 and 2017, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 210,433	\$ 66,598	\$ (52,179)
Net Pension Liability - 12/31/17	\$ 89,217	\$ (63,036)	\$ (188,765)

CRESCENT 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	\$ 971,024	\$ 941,847	\$ (29,177)	103.1%
01-01-15	1,091,686	1,088,982	(2,704)	100.2%
01-01-17	1,259,294	1,260,695	1,401	99.9%

CRESCENT 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.

CRESCENT 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	\$ 11,499	146.6%
2013	16,405	100.0%
2014	16,676	128.6%
2015	28,970	100.0%
2016	31,066	120.6%
2017	26,584	100.1%

CRESCENT TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

CRESCENT 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. Joe Sabol
President, Board of Township Commissioners

Ms. Patricia Christian
Secretary

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.