

COMPLIANCE AUDIT

East Pennsboro Township Non-Uniformed Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

December 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
East Pennsboro Township
Cumberland County
Enola, PA 17025

We have conducted a compliance audit of the East Pennsboro Township Non-Uniformed 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 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 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 ten of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 benefits 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 Pennsboro Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Pennsboro Township Non-Uniformed 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 East Pennsboro Township Non-Uniformed 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 Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Pennsboro 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.

December 6, 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 Pennsboro Township Non-Uniformed 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.

The East Pennsboro Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution 85-20, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established July 1, 1985. Active members are required to contribute 7 percent of compensation, while considered to be an eligible employee, to the plan. As of December 31, 2018, the plan had 46 active members, 2 terminated members eligible for vested benefits in the future, and 26 retirees receiving pension benefits.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 62
Early Retirement	Age 57 and 10 years of service.
Vesting	40% vesting available after 4 years and increasing 10% per year until 100% after 10 years.

Retirement Benefit:

A monthly benefit equal to 2.10% of their final 36 months basic monthly earnings, multiplied by the total number of years of benefit service earned to date.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit will be given to spouse or beneficiary equal to the participant's pension credit accrued to the date of his death and which would have been payable if the participant had retired with 100% vesting and had elected 50% Joint and Survivor annuity.

Disability Benefit:

A participant who becomes totally and permanently disabled while an active employee will receive each month during his disability an amount equal to his full normal retirement benefit.

EAST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified 2 ineligible police officers (4 units) and overstated payroll by \$187,319 on the Certification Form AG 385 filed in 2016. The ineligible members retired effective April 11, 2015, and entered the township's Deferred Retirement Option Program (DROP). In addition, the township certified an ineligible police officer (2 units) and overstated payroll by \$90,388 and an ineligible non-uniformed employee (1 unit) and overstated payroll by \$5,596 on the Certification Form AG 385 filed in 2018. The ineligible police officer retired June 23, 2017 and entered the township's DROP. Similarly, subsequent to the audit period, the township certified an ineligible police officer (2 units) and overstated payroll by \$50,113 and failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$33,257 on the Certification Form AG 385 filed in 2019. The ineligible police officer retired on April 11, 2015, and entered the township's DROP. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials were unaware that DROP participants along with their applicable compensation, are not eligible for certification and failed to establish adequate internal control procedures to ensure the accuracy of the data certified. In addition.

EAST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The data submitted on the certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocations were based on unit values, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2016	Police	4	\$ 4,375	\$ 17,500
2018	Police	2	4,684	\$ 9,368
	Non-Uniformed	1	4,684	4,684
			Total	<u>\$ 14,052</u>
2019	Police	2	5,120	\$ 10,240
	Non-Uniformed	(1)	5,120	(5,120)
			Total	<u>\$ 5,120</u>
Total Overpayment of State Aid				<u>\$ 36,672</u>

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid, in the amount of \$36,672, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Auditor’s Conclusion: Due to the potential withhold of state aid, the township’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

EAST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$36,672, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

EAST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

The supplementary information contained on Pages 6 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, 2015, 2016, 2017, AND 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability				
Service cost (beginning of year)	\$ 236,300	\$ 242,661	\$ 254,957	\$ 277,817
Interest (includes interest on service cost)	806,393	852,630	891,071	927,548
Difference between expected and actual experience	94,420	39,705	(71,684)	219,387
Benefit payments, including refunds of member contributions	(371,508)	(436,032)	(496,796)	(546,751)
Changes in Assumptions	-	-	-	773,217
Net Change in Total Pension Liability	<u>765,605</u>	<u>698,964</u>	<u>577,548</u>	<u>1,651,218</u>
Total Pension Liability – Beginning	11,801,601	12,567,206	13,266,170	13,843,718
Total Pension Liability – Ending (a)	<u><u>\$ 12,567,206</u></u>	<u><u>\$ 13,266,170</u></u>	<u><u>\$ 13,843,718</u></u>	<u><u>\$ 15,494,936</u></u>
Plan Fiduciary Net Position				
Contributions – employer	\$ 393,333	\$ 383,108	\$ 383,108	\$ 350,368
Contributions – employee	175,383	176,703	175,245	208,334
Net investment income	(45,516)	930,325	1,654,784	(522,440)
Benefit payments, including refunds of member contributions	(371,508)	(436,032)	(496,796)	(546,750)
Administrative expense	(3,877)	(4,155)	(4,269)	(4,230)
Net Change in Plan Fiduciary Net Position	<u>147,815</u>	<u>1,049,949</u>	<u>1,712,072</u>	<u>(514,718)</u>
Plan Fiduciary Net Position – Beginning	10,850,505	10,998,320	12,048,269	13,760,341
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 10,998,320</u></u>	<u><u>\$ 12,048,269</u></u>	<u><u>\$ 13,760,341</u></u>	<u><u>\$ 13,245,623</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,568,886</u></u>	<u><u>\$ 1,217,901</u></u>	<u><u>\$ 83,377</u></u>	<u><u>\$ 2,249,313</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.52%	90.82%	99.40%	85.48%
Estimated Covered Employee Payroll	\$ 2,322,083	\$ 2,500,207	\$ 2,455,347	\$ 2,723,531
Net Pension Liability as a Percentage of Covered Employee Payroll	67.56%	48.71%	3.40%	82.59%

EAST PENNSBORO TOWNSHIP NON-UNIFORMED 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 6.75%, 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 (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net Pension Liability – 12/31/15	\$ 3,071,003	\$ 1,568,886	\$ 291,430
Net Pension Liability – 12/31/16	\$ 2,771,533	\$ 1,217,901	\$ (104,209)
Net Pension Liability – 12/31/17	\$ 1,675,263	\$ 83,377	\$ (1,273,610)

In addition, the following presents the net pension liability of the township as of December 31, 2018, calculated using the discount rate of 6.25%, 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:

	1% Decrease (5.25%)	Current Discount Rate (6.25%)	1% Increase (7.25%)
Net Pension Liability	\$ 4,189,987	\$ 2,249,313	\$ 746,695

The discount rate of 6.25% was used in the preparation of the borough's December 31, 2018 GASB 67 report. This rate differs from the 6.75% reported in the Notes to Supplementary Schedules on page 11 of this report.

EAST PENNSBORO TOWNSHIP NON-UNIFORMED 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	\$ 7,730,819	\$ 10,032,618	\$ 2,301,799	77.1%
01-01-15	10,161,872	11,896,022	1,734,150	85.4%
01-01-17	12,161,630	13,194,486	1,032,856	92.2%

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 five-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 PENNSBORO TOWNSHIP NON-UNIFORMED 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 PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	\$ 466,123	100.0%
2014	423,579	100.0%
2015	393,333	100.0%
2016	378,920	101.1%
2017	383,108	100.0%
2018	350,368	100.0%

EAST PENNSBORO TOWNSHIP NON-UNIFORMED 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	5 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.00%
Cost-of-living adjustments	None assumed

EAST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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