

COMPLIANCE AUDIT

Ferguson Township Police Pension Plan Centre County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

August 2018



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 Supervisors
Ferguson Township
Centre County
State College, PA 16801

We have conducted a compliance audit of the Ferguson Township Police Pension Plan for the period January 1, 2016 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 the two plan members 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for the 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount 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.

Ferguson 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 Ferguson 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 Ferguson Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Ferguson 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.

August 14, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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 Ferguson 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. § 761 et seq.

The Ferguson Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 892, 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 June 16, 1975. Active members are required to contribute five percent of their base salary to the plan. As of December 31, 2017, the plan had 22 active members, 2 terminated members eligible for vested benefits in the future, and 12 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	Hired before 1/24/2001 - age 50 and 20 years of service Hired after 1/24/2001 - age 55 and 25 years of service
Early Retirement	20 years of service.
Vesting	Hired before 1/24/2001 - 25% after 5 years of service and then increased 5% per year to 50% at 10 years of service; then increased 10% per year to 100% after 15 years of service. Hired after 1/24/2001 - 100% after 12 years of service.

Retirement Benefit:

Benefit equals 50% of average compensation over last 36 months of employment.

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.

Service Related Disability Benefit:

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

Non Service Related Disability Benefit:

Hired before 1/24/2001 - 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

Hired after 1/24/2001 - None

FERGUSON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 6 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	\$ 169,971	\$ 184,304
Interest	380,013	401,750
Changes for experience		(65,866)
Benefit payments, including refunds of member contributions	<u>(227,366)</u>	<u>(227,391)</u>
Net Change in Total Pension Liability	322,618	292,797
Total Pension Liability - Beginning	4,688,485	5,011,103
Total Pension Liability - Ending (a)	<u><u>\$ 5,011,103</u></u>	<u><u>\$ 5,303,900</u></u>
Plan Fiduciary Net Position		
Employer Contributions	\$ 210,393	\$ 272,819
Employee Contributions	69,108	74,524
Net investment income	235,734	10,204
Benefit payments, including refunds of member contributions	<u>(227,366)</u>	<u>(227,391)</u>
Administration	<u>(9,353)</u>	<u>(6,400)</u>
Net Change in Plan Fiduciary Net Position	278,516	123,756
Plan Fiduciary Net Position - Beginning	4,202,227	4,480,743
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 4,480,743</u></u>	<u><u>\$ 4,604,499</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 530,360</u></u>	<u><u>\$ 699,401</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.42%	86.81%
Covered Employee Payroll	\$ 1,443,614	\$ 1,640,148
Net Pension Liability as a Percentage of Covered Employee Payroll	36.74%	42.64%

FERGUSON 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	\$ 193,519	\$ 202,396
Interest changes of benefit terms	455,966	472,997
Change for experience	-	(30,480)
Changes of assumptions	-	163,400
Benefit payments, including refunds of member contributions	(243,148)	(286,684)
Net Change in Total Pension Liability	<u>406,337</u>	<u>521,629</u>
Total Pension Liability - Beginning	5,303,900	5,710,237
Total Pension Liability - Ending (a)	<u>\$ 5,710,237</u>	<u>\$ 6,231,866</u>
Plan Fiduciary Net Position		
Employer contributions	\$ 218,386	\$ 220,640
Employee contributions	80,947	72,237
Net investment income	246,300	566,445
Benefit payments, including refunds of member contributions	(243,148)	(286,684)
Administration	(4,000)	(8,500)
Net Change in Plan Fiduciary Net Position	<u>298,485</u>	<u>564,138</u>
Plan Fiduciary Net Position - Beginning	4,604,499	4,902,984
Plan Fiduciary Net Position - Ending (b)	<u>\$ 4,902,984</u>	<u>\$ 5,467,122</u>
Net Pension Liability - Ending (a-b)	<u>\$ 807,253</u>	<u>\$ 764,744</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.86%	87.73%
Estimated Covered Employee Payroll	\$ 1,702,848	\$ 1,661,121
Net Pension Liability as a Percentage of Covered Employee Payroll	47.41%	46.04%

FERGUSON 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 8.0%, 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 (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Net Pension Liability - 12/31/15	\$ 1,384,962	\$ 699,401	\$ 125,057
Net Pension Liability - 12/31/16	\$ 1,537,718	\$ 807,253	\$ 194,469
Net Pension Liability - 12/31/17	\$ 1,578,122	\$ 764,744	\$ 84,962

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>
2008	\$ 105,300	\$ 114,708	\$ (9,408)	\$1,186,337	9.67%
2009	108,605	125,120	(16,515)	1,265,496	9.89%
2010	125,120	129,394	(4,274)	1,310,355	9.87%
2011	221,588	245,751	(24,163)	1,323,391	18.57%
2012	189,018	189,018	-	1,428,127	13.24%
2013	204,059	204,060	(1)	1,542,479	13.23%
2014	210,393	210,393	-	1,443,614	14.57%
2015	255,274	272,819	(17,545)	1,496,680	18.23%
2016	218,386	218,489	(103)	1,513,832	14.43%
2017	220,640	220,640	-	1,551,929	14.22%

FERGUSON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	5.40%
2016	0.70%
2015	6.50%
2014	17.70%

FERGUSON 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	\$ 3,598,503	\$ 4,397,858	\$ 799,355	81.8%
01-01-15	4,503,691	4,951,045	447,354	91.0%
01-01-17	4,881,167	5,831,200	950,033	83.7%

FERGUSON 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.

FERGUSON 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 closed
Remaining amortization period	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

FERGUSON 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. Peter D. Buckland
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Mr. Steve Miller
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Township Supervisor

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Mr. David Pribulka
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Mr. Eric Endresen
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