

COMPLIANCE AUDIT

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

May 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
Hampden Township
Cumberland County
Mechanicsburg, PA 17050

We have conducted a compliance audit of the Hampden 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 all seven of the 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 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 all three of the plan members 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 individuals 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.

Hampden Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016 and 2017, 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 Hampden 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

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 Hampden Township Non-Uniformed 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 Hampden 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 30, 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 Hampden 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 Hampden Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan that was locally controlled by the provisions of Resolution No. 03-10, as amended. Effective January 1, 2018, the plan is locally controlled by the provisions of Resolution No. 2017-37. The plan was established March 1, 1969. Active members were not required to contribute to the plan during 2015, 2016, and 2017, but were required to contribute 0.5 percent of compensation to the plan during 2018. As of December 31, 2018, the plan had 74 active members, 11 terminated members eligible for vested benefits in the future, and 49 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 62 and 10 years of service.
Early Retirement	Age 55 and 10 years of service.
Vesting	40% after 4 years, plus 10% for each additional year up to 100% after 10 years.

Retirement Benefit:

Hired before 1/1/2018: Benefit equals 50% of total compensation averaged over the last 36 months of service. Benefits will be reduced proportionately for service of less than 15 years.

Hired on or after 1/1/2018: Benefit equal to 1.3% of base salary averaged over the last 36 months of service.

Survivor Benefit:

Before Retirement	The surviving spouse will receive the survivor's portion of the participant's vested accrued benefit after reduction for early commencement and conversion to a joint and 50% survivor annuity, payable for life, commencing at the early retirement date.
After Retirement	The form of payment in force at the time of death. Optional forms are available at the election of the participant and are actuarially equivalent to the normal form.

Disability Benefit:

None

HAMPDEN TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current audit period, municipal officials complied with the instructions that accompanied Certification Forms AG 385 and accurately reported the required pension data.

HAMPDEN TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 410,924	\$ 456,608	\$ 470,920	\$ 585,948	\$ 599,479
Interest	1,323,315	1,375,902	1,449,112	1,601,364	1,689,265
Difference between expected and actual experience	-	(297,143)	-	6,420	-
Changes of assumptions	-	-	-	1,664,262	-
Benefit payments, including refunds of member contributions	<u>(748,016)</u>	<u>(816,457)</u>	<u>(926,915)</u>	<u>(951,902)</u>	<u>(1,026,202)</u>
Net Change in Total Pension Liability	986,223	718,910	993,117	2,906,092	1,262,542
Total Pension Liability – Beginning	<u>17,600,517</u>	<u>18,586,740</u>	<u>19,305,650</u>	<u>20,298,767</u>	<u>23,204,859</u>
Total Pension Liability – Ending (a)	<u><u>\$ 18,586,740</u></u>	<u><u>\$ 19,305,650</u></u>	<u><u>\$ 20,298,767</u></u>	<u><u>\$ 23,204,859</u></u>	<u><u>\$ 24,467,401</u></u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 781,355	\$ 794,034	\$ 737,156	\$ 740,152	\$ 990,255
Contributions – member	-	-	-	-	21,809
Net investment income	1,052,627	(123,567)	1,456,498	2,621,698	(1,205,056)
Benefit payments, including refunds of member contributions	(748,016)	(816,457)	(926,915)	(951,902)	(1,026,202)
Administrative expense	<u>(56,760)</u>	<u>(59,047)</u>	<u>(58,020)</u>	<u>(69,141)</u>	<u>(67,125)</u>
Net Change in Plan Fiduciary Net Position	1,029,206	(205,037)	1,208,719	2,340,807	(1,286,319)
Plan Fiduciary Net Position – Beginning	<u>16,768,335</u>	<u>17,797,541</u>	<u>17,592,504</u>	<u>18,801,223</u>	<u>21,142,030</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 17,797,541</u></u>	<u><u>\$ 17,592,504</u></u>	<u><u>\$ 18,801,223</u></u>	<u><u>\$ 21,142,030</u></u>	<u><u>\$ 19,855,711</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 789,199</u></u>	<u><u>\$ 1,713,146</u></u>	<u><u>\$ 1,497,544</u></u>	<u><u>\$ 2,062,829</u></u>	<u><u>\$ 4,611,690</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.8%	91.1%	92.6%	91.1%	81.2%
Estimated Covered Employee Payroll	\$ 4,153,297	\$ 4,324,065	\$ 4,466,649	\$ 4,376,949	\$ 4,280,556
Net Pension Liability as a Percentage of Covered Employee Payroll	19.0%	39.6%	33.5%	47.1%	107.7%

HAMPDEN 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, 2014, 2015 and 2016, 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 – 12/31/14	\$ 2,915,227	\$ 789,199	\$ (1,024,776)
Net Pension Liability – 12/31/15	\$ 3,917,735	\$ 1,713,146	\$ (169,186)
Net Pension Liability – 12/31/16	\$ 3,777,357	\$ 1,497,544	\$ (451,304)

The following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/17	\$ 4,871,075	\$ 2,062,829	\$ (316,775)
Net Pension Liability – 12/31/18	\$ 7,521,905	\$ 4,611,690	\$ 2,142,330

HAMPDEN TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 578,043	\$ 578,043	\$ -	\$ -	
2010	603,510	606,638	(3,128)	3,990,949	15.2%
2011	671,369	671,369	-	-	
2012	668,851	598,917	69,934	3,882,523	15.4%
2013	766,072	766,072	-	-	
2014	781,354	781,355	(1)	4,135,297	18.9%
2015	794,034	794,034	-	4,324,065	18.4%
2016	737,156	737,156	-	4,466,649	16.5%
2017	740,152	740,152	-	4,376,949	16.9%
2018	990,255	990,255	-	4,280,556	23.1%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

For 2012, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.81%)
2017	13.87%
2016	8.16%
2015	(1.02%)
2014	6.09%

HAMPDEN 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	\$ 13,984,462	\$ 16,602,559	\$ 2,618,097	84.2%
01-01-15	16,989,424	18,289,597	1,300,173	92.9%
01-01-17	19,447,839	21,969,449	2,521,610	88.5%

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 four-year averaging 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.

HAMPDEN 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.

HAMPDEN 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	9 years
Asset valuation method	4 year smoothing, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.00%

HAMPDEN TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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