

# COMPLIANCE AUDIT

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## Leet Township Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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September 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Commissioners  
Leet Township  
Allegheny County  
Fair Oaks, PA 15003

We have conducted a compliance audit of the Leet Township Non-Uniformed Pension Plan for the period January 1, 2016 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 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 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 calculated for the lone plan member 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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.
- 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.

Leet Township contracted with an independent certified public accounting firm for annual audits of 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 Leet 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 Leet 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 Leet 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.

September 18, 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 Leet 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 Leet Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 9802A. The plan was established July 1, 1991. Active members are required to contribute 3 percent of compensation to the plan, however, member contributions were eliminated during the audit period. As of December 31, 2018, the plan had 4 active members, no terminated members eligible for vested benefits in the future, and 3 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 57 and 5 years of service.
Early Retirement	Age 55 and 5 years of service, reduced by 6 and 2/3% for each year prior to normal retirement.
Vesting	20% vesting available after 3 full years of service; thereafter, 20% per year until 100% vesting available after 7 years.

### Retirement Benefit:

The monthly pension shall be 1.5% credit for each year of service times the average monthly compensation over the participant's last 36 months of employment.

### Survivor Benefit:

A pension benefit shall be automatically provided to a retired member's spouse or to the spouse of a member eligible to retire.

### Disability Benefit:

The disability benefit payable to a participant who becomes totally and permanently disabled before his retirement date is an immediate monthly benefit equal to his accrued benefit on the day before his monthly disability benefit begins.

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

The supplementary information contained on Pages 3 through 5 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	\$ 11,825	\$ 13,382	\$ 13,984	\$ 21,253	\$ 22,103
Interest	41,302	43,584	45,857	45,061	45,347
Change of benefit terms	-	49,937	-	-	-
Difference between expected and actual experience	-	(35,641)	-	(9,233)	-
Changes of assumptions	-	19,721	-	23,398	-
Benefit payments, including refunds of member contributions	<u>(20,445)</u>	<u>(27,261)</u>	<u>(27,261)</u>	<u>(70,698)</u>	<u>(55,449)</u>
Net Change in Total Pension Liability	32,682	63,722	32,580	9,781	12,001
Total Pension Liability – Beginning	<u>514,671</u>	<u>547,353</u>	<u>611,075</u>	<u>643,655</u>	<u>653,436</u>
Total Pension Liability – Ending (a)	<u>\$ 547,353</u>	<u>\$ 611,075</u>	<u>\$ 643,655</u>	<u>\$ 653,436</u>	<u>\$ 665,437</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 5,412	\$ 12,939	\$ -	\$ 1,382	\$ -
Contributions – state aid	15,491	15,683	33,103	31,992	65,581
Net investment income	19,211	(10,348)	20,658	58,989	(39,272)
Benefit payments, including refunds of member contributions	<u>(20,445)</u>	<u>(27,261)</u>	<u>(27,261)</u>	<u>(70,698)</u>	<u>(55,449)</u>
Net Change in Plan Fiduciary Net Position	19,669	(8,987)	26,500	21,665	(29,140)
Plan Fiduciary Net Position – Beginning	<u>431,131</u>	<u>450,800</u>	<u>441,813</u>	<u>468,313</u>	<u>489,978</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 450,800</u>	<u>\$ 441,813</u>	<u>\$ 468,313</u>	<u>\$ 489,978</u>	<u>\$ 460,838</u>
Net Pension Liability – Ending (a-b)	<u>\$ 96,553</u>	<u>\$ 169,262</u>	<u>\$ 175,342</u>	<u>\$ 163,458</u>	<u>\$ 204,599</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.4%	72.3%	72.8%	75.0%	69.3%
Estimated Covered Employee Payroll	\$ 185,856	\$ 172,772	\$ 166,340	\$ 172,269	\$ 189,843
Net Pension Liability as a Percentage of Covered Employee Payroll	52.0%	98.0%	105.4%	94.9%	107.8%



LEET 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 and 2016, calculated using the discount rate of 7.5%, 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 (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/15	\$ 222,367	\$ 169,262	\$ 123,540
Net Pension Liability – 12/31/16	\$ 228,542	\$ 175,342	\$ 129,581

In addition, the following presents the net pension liability of the township as of December 31, 2017, and 2018 calculated using the discount rate of 7.0%, 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 (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net Pension Liability – 12/31/17	\$ 222,663	\$ 163,458	\$ 112,511
Net Pension Liability – 12/31/18	\$ 264,231	\$ 204,599	\$ 153,249

LEET TOWNSHIP NON-UNIFORMED 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>
2014	\$ 20,903	\$ 20,903	\$ -	\$ 185,856	11.25%
2015	28,622	28,622	-	172,772	16.57%
2016	32,728	33,103	(375)	166,340	19.90%
2017	33,374	33,374	-	172,269	19.37%
2018	35,290	65,581	(30,291)	189,843	34.54%

SCHEDULE OF INVESTMENT RETURNS

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

2018	(8.29)%
2017	13.53%
2016	4.75%
2015	(2.36)%
2014	5.69%

LEET 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	\$ 356,384	\$ 465,285	\$ 108,901	76.6%
01-01-15	450,800	531,433	80,633	84.8%
01-01-17	468,313	657,820	189,507	71.2%

LEET 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.

LEET 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, closed
Remaining amortization period	8 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

LEET TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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