

# COMPLIANCE AUDIT

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## Middlesex Township Non-Uniformed Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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July 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Middlesex Township  
Cumberland County  
Carlisle, PA 17013

We have conducted a compliance audit of the Middlesex Township Non-Uniformed Pension Plan for the period January 1, 2014 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 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and 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.

The Middlesex Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Middlesex 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 Middlesex 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 Middlesex 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.

July 18, 2018



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 Middlesex 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Middlesex Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance 4-2011, adopted pursuant to Act 15. The plan was established April 2, 1969. Active members are not required to contribute to the plan. The municipality is required to contribute 8 percent of each member's compensation. As of December 31, 2017 the plan had 10 active members, 2 terminated members eligible for vested benefits in the future, and 2 retirees receiving pension benefits.

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

The supplementary information contained on Pages 2 and 3 reflect 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, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 60,773	\$ 62,742	\$ 73,426
Interest	45,085	50,739	56,841
Difference between expected and actual experience	521	181	736
Changes of assumptions	-	1,040	1,065
Benefit payments, including refunds of member contributions	<u>(6,074)</u>	<u>(6,074)</u>	<u>(6,074)</u>
Net Change in Total Pension Liability	100,305	108,628	125,994
Total Pension Liability - Beginning	<u>800,727</u>	<u>901,032</u>	<u>1,009,660</u>
Total Pension Liability - Ending (a)	<u><u>\$ 901,032</u></u>	<u><u>\$ 1,009,660</u></u>	<u><u>\$ 1,135,654</u></u>
Plan Fiduciary Net Position			
Contributions – employer *	\$ 41,146	\$ 42,501	\$ 51,266
Contributions – PMRS assessment *	-	300	320
Contribution - member	19,995	20,298	22,160
PMRS investment income	44,964	50,600	56,833
Market value investment income	(2,743)	(56,747)	19,639
Benefit payments, including refunds of member contributions	(6,074)	(6,074)	(6,074)
PMRS administrative expense	(300)	(320)	(300)
Additional administrative expense	<u>(1,724)</u>	<u>(2,109)</u>	<u>(2,784)</u>
Net Change in Plan Fiduciary Net Position	95,264	48,449	141,060
Plan Fiduciary Net Position - Beginning	<u>791,589</u>	<u>886,853</u>	<u>935,302</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 886,853</u></u>	<u><u>\$ 935,302</u></u>	<u><u>\$ 1,076,362</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 14,179</u></u>	<u><u>\$ 74,358</u></u>	<u><u>\$ 59,292</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.43%	92.64%	94.78%
Estimated Covered Employee Payroll	\$ 509,730	\$ 530,542	\$ 640,826
Net Pension Liability as a Percentage of Covered Employee Payroll	2.78%	14.02%	9.25%

\* 2014 employer contributions includes \$68 interest deposited into the Municipal Reserve Account and \$20 administrative expenses. 2015 employer contributions includes \$58 interest deposited into the Municipal Reserve Account and (\$20) administrative expenses. 2016 employer contributions includes \$20 administrative expenses.

MIDDLESEX 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 and 2015, calculated using the discount rate of 5.5%, 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability - 12/31/14	\$ 186,602	\$ 14,179	\$ (157,643)
Net Pension Liability - 12/31/15	\$ 268,632	\$ 74,358	\$ (119,342)

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, 2016, 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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 278,811	\$ 59,292	\$ (159,680)



MIDDLESEX TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 24,094	\$ 7,230
2013	26,408	8,266
2014	26,353	14,705
2015	37,119	5,644
2016	45,077	6,489
2017	49,660	464

Note: In 2012, the township met the plan's \$33,296 funding requirement through the deposit of \$24,094 in state aid and \$7,230 in employer contributions and the application of \$1,972 in terminated employee forfeitures.

MIDDLESEX TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Donald S. Geistwhite, Jr.**  
Chairman, Board of Township Supervisors

**Mr. Steven L. Larson**  
Vice-Chairman, Board of Township Supervisors

**Mr. William H. Goodhart**  
Township Supervisor

**Ms. Eileen Gault**  
Township Manager

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