

COMPLIANCE AUDIT

North Franklin Township Police Pension Plan Washington County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

March 2019



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
North Franklin Township
Washington County
Washington, PA 15301

We have conducted a compliance audit of the North Franklin Township Police Pension Plan for the period January 1, 2015 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 the only plan member who elected to vest through the completion of our fieldwork procedures, 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 that amount 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.

North Franklin Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015 and December 31, 2016 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 North Franklin 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 North Franklin Township Police 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 – Untimely Deposit 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 North Franklin 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.

March 12, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Untimely Deposit of State Aid.....	3
Supplementary Information	4
Report Distribution List	11

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 North Franklin 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. § 767 et seq.

The North Franklin Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 15-2000, as amended, adopted pursuant to Act 600, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established July 5, 1976. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had 5 active members, no terminated members eligible for vested benefits in the future, and 6 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 Age 50 and 25 years of service

Early Retirement 20 years of service

Vesting 100% after 12 years of service

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$20 per month for each year of service in excess of 25 years, up to a maximum of \$100.

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:

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

NORTH FRANKLIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Untimely Deposit of State Aid

Condition: The municipality did not deposit its 2015, 2016, 2017 and 2018 state aid allocations into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its state aid allocations in the amounts of \$58,813, \$69,994, 73,412 and \$65,581, on September 30, 2015, September 27, 2016, September 27, 2017 and September 20, 2018 respectively, and chose to deposit these entire annual allocations into its police pension plan; however, municipal officials failed to deposit the funds into its police pension plan until January 4, 2016, January 3, 2017, September 28, 2018 and December 17, 2018, respectively. Although it was noted that the municipality included interest on the late deposit of 2017 state aid, the township failed to include appropriate interest on the late deposits of its 2015, 2016 and 2018 state aid.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plan.

Cause: The state aid was not deposited timely into the municipality’s pension plan because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was eventually deposited into the plan, the interest earned beyond the 30 day grace period, for the late deposits of the 2015, 2016 and 2018 state aid, was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually for the 2015, 2016 and 2018 state aid. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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

Auditors Conclusion: Compliance will be evaluated during our next audit of the plan.

NORTH FRANKLIN TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 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 BEGINNING JANUARY 1, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 74,979	\$ 79,420
Interest	230,001	238,682
Difference between expected and actual experience	-	(287,779)
Benefit payments, including refunds of member contributions	(190,870)	(196,054)
Net Change in Total Pension Liability	<u>114,110</u>	<u>(165,731)</u>
Total Pension Liability – Beginning	3,095,095	3,209,205
Total Pension Liability – Ending (a)	<u>\$ 3,209,205</u>	<u>\$ 3,043,474</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 83,299	\$ 82,884
Contributions – State Aid	54,381	58,090
Contributions – member	21,604	18,467
Net investment income	390,186	156,049
Benefit payments, including refunds of member contributions	(190,870)	(196,054)
Administrative expense	(852)	(904)
Net Change in Plan Fiduciary Net Position	<u>357,748</u>	<u>118,532</u>
Plan Fiduciary Net Position – Beginning	1,979,485	2,337,233
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,337,233</u>	<u>\$ 2,455,765</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 871,972</u>	<u>\$ 587,709</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.83%	80.69%
 Estimated Covered Employee Payroll	\$ 425,755	\$ 401,558
 Net Pension Liability as a Percentage of Covered Employee Payroll	204.81%	146.36%

NORTH FRANKLIN TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS BEGINNING JANUARY 1, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 75,861	\$ 59,640
Interest	226,361	232,428
Difference between expected and actual experience	-	(168,423)
Changes of assumptions	-	414,294
Benefit payments, including refunds of member contributions	(186,804)	(220,596)
Net Change in Total Pension Liability	115,418	317,343
Total Pension Liability – Beginning	3,043,474	3,158,892
Total Pension Liability – Ending (a)	<u>\$ 3,158,892</u>	<u>\$ 3,476,235</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 108,873	\$ 85,660
Contributions – State Aid	58,813	69,994
Contributions – member	22,794	20,584
Net investment income	8,736	192,852
Benefit payments, including refunds of member contributions	(186,804)	(220,596)
Administrative expense	(894)	(898)
Net Change in Plan Fiduciary Net Position	11,518	147,596
Plan Fiduciary Net Position – Beginning	2,455,765	2,467,283
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,467,283</u>	<u>\$ 2,614,879</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 691,609</u>	<u>\$ 861,356</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.11%	75.22%
 Estimated Covered Employee Payroll	\$ 422,124	\$ 409,538
 Net Pension Liability as a Percentage of Covered Employee Payroll	163.84%	210.32%

NORTH FRANKLIN 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, 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	\$ 1,235,660	\$ 871,972	\$ 564,195
Net Pension Liability – 12/31/15	\$ 934,945	\$ 587,709	\$ 293,501
Net Pension Liability – 12/31/16	\$ 1,052,013	\$ 691,609	\$ 386,244

In addition, the following presents the net pension liability of the township as of December 31, 2017 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:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/17	\$ 1,277,995	\$ 861,356	\$ 497,616

NORTH FRANKLIN TOWNSHIP POLICE 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
2008	\$ 102,411	\$ 160,955	\$ (58,544)	\$ 361,917	44.47%
2009	106,882	106,882	-	298,363	35.82%
2010	99,586	99,586	-	364,711	27.31%
2011	119,120	121,206	(2,086)	377,106	32.14%
2012	121,206	121,206	-	399,164	30.36%
2013	137,680	137,680	-	425,755	32.34%
2014	140,974	140,974	-	401,558	35.11%
2015	167,686	167,686	-	422,124	39.72%
2016	155,654	155,654	-	409,538	38.01%
2017	149,722	149,722	-	*	*

* Due to the timing of this audit, covered-employee payroll for 2017 was not provided in this schedule.

NORTH FRANKLIN 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	\$ 2,255,539	\$ 3,095,095	\$ 839,556	72.9%
01-01-15	2,473,450	3,043,474	570,024	81.3%
01-01-17	2,749,778	3,476,235	726,457	79.1%

Note: The market value 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 as provided by section 210 of Act 205. 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.

NORTH FRANKLIN 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.

NORTH FRANKLIN 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	8 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	5.0%
Cost-of-living adjustments	3.0%

* Includes inflation at 3.0%.

NORTH FRANKLIN 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. Ron Junko
Chairman, Board of Township Supervisors

Mr. Silvio Passalacqua
Township Supervisor

Mr. Bob Sabot
Township Supervisor

Ms. Jacqueline Kotchman
Secretary/Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.