

# COMPLIANCE AUDIT

---

## Norwegian Township Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

---

March 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  
Norwegian Township  
Schuylkill County  
Mar Lin, PA 17951

We have conducted a compliance audit of the Norwegian Township Police Pension Plan for the period January 1, 2015 to December 31, 2016. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and 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 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, and through the completion of our fieldwork procedures.
- 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Norwegian 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 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 Norwegian 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 – Partial Compliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligation Of The Plan

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Norwegian 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 14, 2018



EUGENE A. DEPASQUALE  
Auditor General

# CONTENTS

	<u>Page</u>
Background .....	1
Status of Prior Finding .....	3
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligation Of The Plan .....	4
Supplementary Information .....	6
Report Distribution List .....	10

## 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 Norwegian 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Norwegian Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of an ordinance dated December 2, 1975, as amended, adopted pursuant to Act 69. The plan was established December 2, 1975. As of December 31, 2016, the plan had no active members, no terminated members eligible for vested benefits in the future, and 1 retiree receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2016, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement - Age 55 and 15 years of service.

### Retirement Benefit:

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

### Survivor Benefit:

Post Retirement - Subject to the provisions of the form of payment elected by the participant.

### Service Related Disability Benefit:

Provided by the disability income contract.

NORWEGIAN TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

The township has partially complied with the prior audit recommendation concerning the following:

- Failure To Pay The Minimum Municipal Obligation Of The Plan

During the prior audit period, the township established a receivable in the amount of \$129,364 for the outstanding 2010 MMO with interest, calculated with the annual interest due on the outstanding amount through June 30, 2014 with the intentions of paying \$10,000 per year beginning in 2013 towards this outstanding obligation. During the prior audit period, the township contributed \$10,000 towards the outstanding MMO balance due during 2013; however, during 2014 the township only deposited \$7,500 towards this outstanding obligation. A similar condition occurred during the current audit period. The township contributed \$11,560 towards the outstanding MMO balance due during 2015; however, during 2016, the township only deposited \$4,060 towards this outstanding obligation. As of December 31, 2016, there remains an outstanding MMO balance due along with an appropriate interest calculated from January 1 of the year the MMO was originally due through the date the full amount of the MMO is ultimately paid. In addition, subsequent to the current audit period, we also determined that the township failed to pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2017 as required by Act 205 as further discussed in the Finding and Recommendation section of this report.



NORWEGIAN TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Failure To Pay The Minimum Municipal Obligation (MMO) Of The Plan**

Condition: As disclosed in the Status of Prior Finding section of this report, although the township partially complied with our prior audit recommendation by depositing \$17,500 during the prior audit period and an additional \$15,620 during the current audit period towards the outstanding 2010 MMO balance due, as of December 31, 2016, there remains an outstanding 2010 MMO balance due to the police pension plan along with interest in the total amount of \$146,103 as determined by the plan’s actuary. In addition, subsequent to the current audit period, the township again did not pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2017, as required by Act 205. The municipality had an unpaid MMO of \$3,018 for the year 2017. As such, based on a determination prepared by the plan’s actuary, the total funding deficiency due to the township’s police pension plan amounted to \$156,750 as of December 31, 2017.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: As disclosed in the prior audit report, an arbitration award significantly changed the benefit structure of the township’s police pension plan and effectively doubled the liabilities of the pension plan. Furthermore, the only active police officer retired under the changed benefit structure and elected a joint and 100% survivor annuity. With this retirement and no active police officers, the township is no longer eligible to receive state aid or employee contributions to aid in funding the liability.

NORWEGIAN TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

In addition, the township lacked the available resources to fully fund the outstanding 2010 MMO obligation to ensure compliance with the prior audit recommendation.

Effect: The continued failure to pay the outstanding MMO due the plan could result in the plan not having adequate resources to meet current and future benefit obligations to its remaining member. As previously disclosed, according to the plan’s actuary, in its current condition, the trust account has approximately 40 percent of the necessary assets to meet future benefit liabilities. If the township continues to contribute \$10,000 per year and meets its 5 percent investment return benchmark while continuing to annually pay \$18,900 in benefit payments and \$3,300 in expenses out of the trust fund each year, the trust would be depleted in approximately 13 years. However, if at any point in the future the township does not meet its investment return benchmark on a cumulative basis, the trust account would be depleted at a faster rate. Without regard to the funding standard, the actuary also determined that a minimum contribution of \$15,000 per year would be required by the township in order to adequately fund the plan.

Due to the municipality’s failure to fully pay the entire 2010 MMO balance as well as the outstanding 2017 MMO balance due, the municipality must add the outstanding MMO balances due to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We again recommend that the municipality pay the total outstanding MMO due to the police pension plan, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that in the future, plan officials pay the full MMO due to the plan.

Management’s Response: Municipal officials agreed with the finding without exception, indicating that the township is currently paying \$10,000 per year towards the pension obligation. Subsequent to the audit period, on February 23, 2018, municipal officials deposited \$20,000 into the police pension plan to pay the 2018 MMO and the remaining amount will be applied against the plan’s overall funding deficiency.

Auditor’s Conclusion: Based on the management response, the issue remains as stated since an annual payment plan is not a prescribed methodology for paying the plan’s MMO pursuant to Act 205. In addition, we noted that the township only contributed \$15,620 in 2015 and 2016 of its intended \$10,000 annual funding threshold to eliminate the deficiency. Furthermore, continued underfunding will continue to result in a deteriorating funding status for the plan going forward although we do note that the subsequent deposit made in 2018 is a good start.

Compliance will be monitored subsequent to the release of the audit report and through our next audit of the plan during our next audit of the plan.

NORWEGIAN 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	\$ 291,047	\$ 290,448	\$ (599)	100.2% (*)
01-01-15	276,292	286,165	9,873	96.5% (*)
01-01-17	255,864	277,310	21,446	92.3% (*)

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 5-year averaging period. 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.

\*The actuarial value of assets at 01-01-13, 01-01-15 and 01-01-17 contains a receivable from the township amounting to \$150,254, \$147,457 and \$146,103, respectively, for its outstanding 2010 pension obligation which increases the funded ratio above its actual funded ratio which is 46.0%, 42.5% and 37.4%, respectively, based on actual assets available for benefits as of the respective valuation dates.

NORWEGIAN 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.

NORWEGIAN TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution*	Percentage Contributed
2011	None	N/A
2012	None	N/A
2013	None	N/A
2014	None	N/A
2015	\$ 940	100.0%
2016	940	100.0%

\* As disclosed in the finding contained in this report, the township has an outstanding obligation due the police pension plan in accordance with Act 205 and although there was no required MMO for the years 2011 through 2014, there exists a total overall funding deficiency to the police pension plan in the amount of \$156,750 as of December 31, 2017 according to the plan's actuary.

NORWEGIAN 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
Remaining amortization period	1 year
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	3.5%

NORWEGIAN 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. Stanley Petchulis**  
Chairman, Board of Township Supervisors

**Mr. Tom Dallago**  
Township Supervisor

**Mr. Dave George**  
Township Supervisor

**Mr. Michael Miller**  
Office Manager

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).