COMPLIANCE AUDIT

Shaler Township
Police Pension Plan
Allegheny County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2017

October 2018

EUGENE A. DEPASQUALE
AUDITOR GENERAL

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 Commissioners
Shaler Township
Allegheny County
Glenshaw, PA 15116

We have conducted a compliance audit of the Shaler 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 all 4 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.

- 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 report 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

Shaler Township contracted with an independent certified public accounting firm for annual audits of its 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 Shaler 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 Shaler 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 – Failure To Determine Impact On State Aid Allocations Attributable To Excess Benefits Provided

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 Shaler 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 7, 2018

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

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 Shaler 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Shaler Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1854, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established May 1, 1960. Active members are required to contribute 8% percent of compensation to the plan. As of December 31, 2017, the plan had 25 active members, no terminated members eligible for vested benefits in the future, and 28 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 55 and 25 years of service
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of $100 per month for service in excess of 26 years or more.

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:

For total and permanent disablement, a monthly benefit equal to 75% of the participant's final monthly average salary at disablement.

SHALER TOWNSHP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Pension Benefits Not In Compliance With Act 600 Provisions

The audit report covering the period January 1, 2004, to December 31, 2006, contained a finding that the pension plan's governing document contained benefit provisions that conflicted with the collective bargaining agreement (CBA) between the police officers and the township and also that the plan's governing document and CBA contained benefit provisions that were not in compliance with Act 600. The audit report for the period January 1, 2007, to December 31, 2008, disclosed that the township adopted Ordinance No. 1854, which eliminated the inconsistencies with the CBA and brought the plan's benefit structure into compliance with Act 600. In addition, it was noted that both Ordinance No. 1854 and the most recent CBA contained a definition of salary in compliance with Act 600 for police officers hired after April 1, 2001. However, pension calculations for police officers hired prior to April 1, 2001, could include unused sick leave earned outside the pension computation period. And, although the township did not receive state aid attributable to excess benefits being provided to retirees during the prior audit period because the township received its state aid allocations based on unit value, the Department would continue to monitor the impact of the excess benefits being paid to retirees on the township's future state aid allocations.

During the current audit period, as part of the department's on-going efforts to monitor the impact of the excess benefits on subsequent allocations of state aid to the township, it was determined that a total of 11 retirees are currently receiving pension benefits in excess of Act 600 and as such, it appears the township received excess state aid in 2016 and 2017 attributable to the excess benefits provided, as further discussed in the Finding and Recommendation section of this report.

Finding – Failure To Determine Impact On State Aid Allocations Attributable To Excess Benefits Provided

Condition: As disclosed in the Status of Prior Finding section of this report, there are currently 11 retirees receiving pension benefits in excess of Act 600. However, plan officials have not determined the impact on the state aid allocations received by the township during 2016 and 2017 attributable to the excess benefits provided.

Criteria: As disclosed in the prior audit report, to the extent that a municipality is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits are deemed ineligible for funding with state pension aid and as such, municipal officials are required to consult with the plan's actuary and determine whether to prepare Supplemental Actuarial Information Form AG-MP-1 and submit the completed form to the Department to determine the impact of the excess benefits on the municipality's annual state aid allocation. If it is determined the excess benefits had an impact on the municipality's state aid after the submission of this information, the plan's actuary would then be required to contact the Municipal Pension & Fire Relief Programs Unit to verify any overpayment of state aid received and plan officials would be required to reimburse the overpayment to the Commonwealth.

Cause: Since the plan governing document and CBA authorize the inclusion of unused sick leave earned outside the pension computation period in pension calculations for police officers hired prior to April 1, 2001, there are 11 retired police officers currently receiving excess benefits pursuant to this provision. As such, these excess pension benefits were reflected in the plan's Act 205 actuarial valuation reports submitted during the current audit period and used as the basis for determining the municipality's allocation of state aid distributed during 2016 and 2017. However, plan officials did not consult timely with the plan's actuary to determine whether a Supplemental Actuarial Information Form AG-MP-1 was also required to be submitted to the Department to determine the impact of the excess benefits on the municipality's state aid allocations for the aforementioned years.

Effect: Because the township's state aid allocation is determined, in part, by the information contained in the plan's actuarial valuation report, and the township received its annual allocation for 2016 and 2017 based on pension costs, the correct inclusion of excess benefits in the actuarial valuation report appears to have resulted in excess state aid attributable to the excess benefits. However, since plan officials failed to determine the impact of the excess benefits on the state aid allocations through the timely preparation of the Supplemental Actuarial Information Form AG-MP 1 by the plan's actuary, the resulting excess state aid received by the township during 2016 and 2017 attributable to the excess benefits is not known as of the date of this report.

Finding – (Continued):

Recommendation: We recommend that plan officials, with assistance from the pension plan's actuary, determine the impact of the excess benefit payments on the township's state aid allocations received during 2016 and 2017 and submit this information to the Department. After the submission of this information, the plan's actuary should contact the Municipal Pension & Fire Relief Programs Unit to verify the overpayment of state aid received and the township should reimburse the overpayment to the Commonwealth, accordingly. A check in the determined amount, with interest compounded annually from the date of receipt to the date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

If the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

To the extent that the township remains contractually obligated to pay benefits to retirees in excess of those authorized by Act 600 and the excess benefit reflected in the Act 205 actuarial valuation report for the plan and funded in accordance with Act 205 funding standards, the excess benefits will be deemed ineligible for funding with state pension aid and we again recommend that municipal officials consult the plan's actuary and determine whether to prepare future Supplemental Actuarial Information Form AG-MP-1 and submit the completed form to the Department in a timely manner. If it is determined the excess benefits had an impact on the township's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the Department to verify the overpayments of state aid received and plan officials would be required to reimburse such overpayments to the Commonwealth.

Management Response: Municipal officials agreed with the finding without exception but indicated that the township's actuary failed to complete the AG-MP-1 form in a timely manner.

Auditor's Conclusion: Due to the potential impact on the township's state aid attributable to this finding, the township's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

SHALER TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 9 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 AND 2015

	2014	2015
Total Pension Liability		
Service cost	$ 330,297	$ 332,014
Interest	1,317,175	1,341,078
Difference between expected and actual experience	-	(537,102)
Benefit payments, including refunds of member contributions	(764,337)	(823,480)
Net Change in Total Pension Liability	883,135	312,510
Total Pension Liability - Beginning	17,607,286	18,490,421
Total Pension Liability - Ending (a)	$ 18,490,421	$ 18,802,931
Plan Fiduciary Net Position		
Contributions - employer	$ 196,866	$ 205,720
Contributions - member	181,062	185,822
Net investment income	1,144,633	(149,346)
Benefit payments, including refunds of member contributions	(764,337)	(823,480)
Administrative expense	(98,829)	(96,612)
Other	7,781	13,607
Net Change in Plan Fiduciary Net Position	667,176	(664,289)
Plan Fiduciary Net Position - Beginning	19,635,246	20,302,422
Plan Fiduciary Net Position - Ending (b)	$ 20,302,422	$ 19,638,133
Net Pension Liability - Ending (a-b)	$ (1,812,001)	$ (835,202)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	109.80%	104.44%
Estimated Covered Employee Payroll	$ 2,368,197	$ 2,382,789
Net Pension Liability as a Percentage of Covered Employee Payroll	(76.51%)	(35.05%)

SHALER TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	2016	2017
Total Pension Liability		
Service cost	$ 328,895	$ 389,014
Interest	1,404,079	1,481,029
Difference between expected and actual experience	-	(275,796)
Changes of assumptions	-	1,101,336
Benefit payments, including refunds of member contributions	(836,648)	(968,709)
Net Change in Total Pension Liability	896,326	1,726,874
Total Pension Liability - Beginning	18,802,931	19,699,257
Total Pension Liability - Ending (a)	$ 19,699,257	$ 21,426,131
Plan Fiduciary Net Position		
Contributions - employer	$ 59,081	$ 76,189
Contributions - member	197,901	219,064
Net investment income	1,481,384	2,818,388
Benefit payments, including refunds of member contributions	(836,648)	(968,709)
Administrative expense	(103,879)	(109,426)
Net Change in Plan Fiduciary Net Position	797,839	2,035,506
Plan Fiduciary Net Position - Beginning	19,638,133	20,435,972
Plan Fiduciary Net Position - Ending (b)	$ 20,435,972	$ 22,471,478
Net Pension Liability - Ending (a-b)	$ (736,715)	$ (1,045,347)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.74%	104.88%
Estimated Covered Employee Payroll	$ 2,412,611	$ 2,443,049
Net Pension Liability as a Percentage of Covered Employee Payroll	(30.54%)	(42.79%)

SHALER 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	$ 252,164	$ (1,812,001)	$ (3,558,664)
Net Pension Liability - 12/31/15	$ 1,258,174	$ (835,202)	$ (2,596,451)
Net Pension Liability – 12/31/16	$ 1,394,399	$ (736,715)	$ (2,542,161)

The following presents the net pension liability of the township as of December 31, 2017, 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	$ 1,380,917	$ (1,045,347)	$ (3,090,790)

SHALER 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	$ -	$ -	$ -	$ -	0.00%
2009	-	-	-	-	0.00%
2010	-	-	-	-	0.00%
2011	162,162	282,318	(120,156)	-	0.00%
2012	147,012	171,653	(24,641)	2,238,800	7.67%
2013	247,623	248,407	(784)	2,238,800	11.10%
2014	196,866	196,866	-	2,368,197	8.31%
2015	205,720	205,720	-	2,382,789	8.63%
2016	59,081	59,081	-	2,412,611	2.45%
2017	76,189	76,189	-	2,443,049	3.12%

SCHEDULE OF INVESTMENT RETURNS

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

2017	14.05%
2016	7.68%
2015	(0.75%)
2014	5.92%

SHALER 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	$ 16,996,808	$ 16,783,122	$ (213,686)	101.3%
01-01-15	19,528,636	17,953,319	(1,575,317)	108.8%
01-01-17	21,305,983	20,524,796	(781,187)	103.8%

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 4-year averaging period which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair 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.

SHALER 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.

SHALER 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
2012	$ 147,012	116.8%
2013	247,623	100.0%
2014	196,866	100.0%
2015	205,720	100.0%
2016	59,081	100.0%
2017	76,189	100.0%

SHALER 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	N/A
Remaining amortization period	N/A
Asset valuation method	4-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.25%

SHALER 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. David W. Shutter
President, Board of Township Commissioners

Mr. William R. Cross
Vice President, Board of Township Commissioners

Ms. Susan Fisher
Commissioner

Ms. Lori Mizgorski
Commissioner

Mr. Thomas J. McElhone
Commissioner

Mr. James M. Boyle
Commissioner

Mr. Wayne Skelley
Commissioner

Mr. Timothy J. Rogers
Township Manager

Ms. Judith L. Kording
Finance Director

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.