LIMITED PROCEDURES ENGAGEMENT

South Franklin Township Non-Uniformed Pension Plan

Washington County, Pennsylvania

For the Period

January 1, 2016 to December 31, 2018

April 2020

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 Supervisors
South Franklin Township
Washington County
Washington, PA 15301

We conducted a Limited Procedures Engagement (LPE) of the South Franklin Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2018 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the finding contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.

- 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 engagement period.

- 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.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- Whether retirement benefits calculated for the sole plan member who retired during the engagement 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 benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.

- Whether the January 1, 2017 actuarial valuation report was prepared and submitted in accordance with Act 205 and whether selected information provided on this 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the South Franklin Township Non-Uniformed Pension Plan was not being 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 Deposit The Full Amount Of State Aid Into The Pension Plan

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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 South Franklin Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

Eugene A. DePasquale

March 23, 2020

EUGENE A. DEPASQUALE
Auditor General

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SOUTH FRANKLIN TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

South Franklin Township has complied with the prior LPE report recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

  On December 12, 2016, the township reimbursed $968 to the Commonwealth for the overpayment of state aid received during 2015 and complied with the instructions accompanying Certification Form AG 385 in accurately reporting the required data.

SOUTH FRANKLIN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: During the conduct of the prior engagement, we disclosed to plan officials that the municipality failed to deposit the full amount of its 2014 state aid allocation into its pension plan in accordance with Act 205. The municipality received $7,494 on September 25, 2014; however, as of the date of this report, only state aid totaling $5,381 was actually deposited into the pension plan. Although assurances were provided by municipal officials that the outstanding 2014 state aid would be forwarded to the pension plan, state aid remains in the general fund.

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 fund or the alternate funding mechanism applicable to the pension plan.

Cause: The township initially deposited the budgeted minimum municipal obligation (MMO) early in plan year 2014 from the township's general fund; however, plan officials inadvertently failed to reconcile the MMO amount previously deposited, with the actual state aid received and reimbursed to the general fund. Additionally, the township's internal control procedures were not adequate to timely identify the oversight.

Effect: When state aid is not deposited into a pension plan account, 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 immediately deposit the outstanding state aid received during 2014 amounting to $2,113, with interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually into the pension plan. 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 implement adequate procedures to ensure that the full amount of future state aid allocations received is deposited timely, into the pension plan in accordance with Act 205.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

SOUTH FRANKLIN 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, 2018, 2017, 2016, 2015, AND 2014

	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	$ 17,830	$ 16,358	$ 14,944	$ 16,409	$ 15,560
Interest	32,306	31,421	30,927	30,636	28,964
Change of benefit terms	4,393	-	-	-	-
Difference between expected and actual experience	34,593	-	6,452	-	23,658
Changes of assumptions	-	-	14,854	(2,980)	-
Benefit payments, including refunds of member contributions	(32,391)	(32,391)	(32,391)	(42,096)	(35,239)
Net Change in Total Pension Liability	56,731	15,388	34,786	1,969	32,943
Total Pension Liability – Beginning	613,520	598,132	563,346	561,377	528,434
Total Pension Liability – Ending (a)	$ 670,251	$ 613,520	$ 598,132	$ 563,346	$ 561,377
Plan Fiduciary Net Position					
Contributions – employer	$ 8,800	$ 19,387	$ 16,840	$ 8,804	$ 6,068
Contributions – PMRS assessment	260	240	17	37	-
Contributions – employee	9,565	8,776	8,590	8,224	8,138
PMRS investment income	31,627	30,239	30,002	29,471	28,984
Market value investment income	(55,035)	68,083	20,125	(36,296)	6,326
Benefit payments, including refunds of member contributions	(32,391)	(32,391)	(32,391)	(42,096)	(35,239)
PMRS Administrative expense	(240)	(240)	(240)	(260)	(280)
Additional administrative expense	(1,411)	(1,391)	(1,470)	(1,229)	(1,112)
Net Change in Plan Fiduciary Net Position	(38,825)	92,703	41,473	(33,345)	12,885
Plan Fiduciary Net Position – Beginning	644,207	551,504	510,031	543,376	530,491
Plan Fiduciary Net Position – Ending (b)	$ 605,382	$ 644,207	$ 551,504	$ 510,031	$ 543,376
Net Pension Liability – Ending (a-b)	$ 64,869	$ (30,687)	$ 46,628	$ 53,315	$ 18,001
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.32%	105.0%	92.20%	90.54%	96.79%
Estimated Covered Employee Payroll	$ 318,815	$ 292,507	$ 286,342	$ 274,153	$ 267,413
Net Pension Liability as a Percentage of Covered Employee Payroll	20.35%	-10.49%	16.28%	19.45%	6.73%

SOUTH FRANKLIN 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	$ 75,887	$ 18,001	$ (31,818)
Net Pension Liability – 12/31/15	$ 114,054	$ 53,315	$ 1,379

In addition, the following presents the net pension liability of the township as of December 31, 2016, 2017, and 2018, 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	$ 112,321	$ 46,628	$ (9,444)
Net Pension Liability – 12/31/17	$ 36,696	$ (30,687)	$ (88,202)
Net Pension Liability – 12/31/18	$ 138,574	$ 64,869	$ 2,041

SOUTH FRANKLIN TOWNSHIP NON-UNIFORMED 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
2014	$ 5,381	$ 6,068	$ (687)	$ 267,413	2.27%
2015	8,841	8,841	-	274,153	3.22%
2016	7,916	16,857	(8,941)	286,342	5.89%
2017	10,309	19,627	(9,318)	292,507	6.71%
2018	9,040	9,060	(20)	318,815	2.84%
2019	10,096	10,098	(2)		

* Due to the timing of this engagement, covered-employee payroll for 2019 was not provided in this schedule.

SOUTH FRANKLIN 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	$ 521,838	$ 519,611	$ (2,227)	100.4%
01-01-15	556,377	561,377	(5,000)	99.1%
01-01-17	590,623	598,132	7,509	98.7%

SOUTH FRANKLIN 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.

SOUTH FRANKLIN 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
Remaining amortization period	14 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

SOUTH FRANKLIN TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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