

COMPLIANCE AUDIT

Swatara Township Police Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

February 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Commissioners
Swatara Township
Dauphin County
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We have conducted a compliance audit of the Swatara Township Police Pension Plan for the period January 1, 2015 to December 31, 2018. 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 findings 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 findings 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 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 seven of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 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 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.

Swatara 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 Swatara 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 Swatara 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 – Incorrect Data On Certification Form 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

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 Swatara 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.

December 11, 2019



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 Swatara 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 Swatara Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2009-3, 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 October 1, 1957. Active members are required to contribute 5.5 percent of monthly compensation to the plan. As of December 31, 2018, the plan had 47 active members, 1 terminated member eligible for vested benefits in the future, and 35 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 50 and 25 years of service.

Early Retirement None

Vesting 100% after 12 years of service.

Retirement Benefit:

50% of final 36 months average salary, plus a service increment of \$200 per month after 26 years, plus an additional \$200 after 28 years.

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:

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

SWATARA TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Swatara Township has complied with the prior audit recommendation concerning the following:

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

During the current audit period, the township reimbursed \$8,346 to the Commonwealth for the overpayment of state aid received in 2014.

Partial Compliance With Prior Audit Recommendation

Swatara Township has partially complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Incorrect Data On Certification Form 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

The township returned \$775 to the Commonwealth on November 12, 2019 for the overpayment of the ad hoc reimbursements received in the prior audit period; however, plan officials failed to comply with the instructions that accompany Certification Form AG 490 to assist them in accurately reporting the required data in the years 2016 and 2017 as further discussed in the Finding and Recommendation section of this report.

SWATARA TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form 490 Resulting In Excess Reimbursements For Special 1989 Ad Hoc Postretirement Adjustments

Condition: As disclosed in the Status of Prior Finding Section of this report, the township partially complied with the prior recommendation by returning \$775 to the Commonwealth for the overpayment of ad hoc reimbursements received in the prior audit period. However, plan officials failed to comply with the instructions that accompany Certification Form AG 490 to assist them in accurately reporting the required pension data in the years 2016 and 2017. The township incorrectly certified \$300 and \$450 of the special ad hoc postretirement adjustments for one individual in 2016 and 2017, respectively. The individual is a surviving spouse of a retiree who died on September 27, 2008. Since the retiree’s date of death, the surviving spouse was receiving 50 percent of the pension benefit the retiree was receiving. The surviving spouse died on June 4, 2016.

Criteria: Pursuant to Act 147, the municipality should only report the amount of special ad hoc postretirement adjustments paid in the previous year to eligible retirees and/or their surviving spouses.

Cause: Plan officials failed to comply with the instructions that accompany Certification Form AG 490 and continued to certify the amount of ad hoc postretirement reimbursements that had been paid to the retiree instead of the amount paid to the surviving spouse.

Effect: Because the township’s reimbursement is determined based on amounts reported on the Certification Form AG 490, the township received excess reimbursements in 2016 and 2017, totaling \$750, as illustrated below:

<u>Year</u>	<u>Reimbursement Claimed</u>	<u>Reimbursement Due</u>	<u>Excess Reimbursement</u>
2016	\$ 600	\$ 300	\$ 300
2017	600	150	<u>450</u>
		Total	<u><u>\$ 750</u></u>

SWATARA TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the total excess reimbursement, in the amount of \$750, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to 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, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

SWATARA TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 585,367	\$ 607,304	\$ 640,706	\$ 753,461	\$ 700,562
Interest	1,476,996	1,554,929	1,661,708	1,786,792	1,743,917
Difference between expected and actual experience	-	(249,965)	-	-	(2,087,090)
Benefit payments, including refunds of member contributions	(825,656)	(894,689)	(827,105)	(876,149)	(996,242)
Net Change in Total Pension Liability	<u>1,236,707</u>	<u>1,017,579</u>	<u>1,475,309</u>	<u>1,664,104</u>	<u>(638,853)</u>
Total Pension Liability – Beginning	<u>18,289,913</u>	<u>19,526,620</u>	<u>20,544,199</u>	<u>22,019,508</u>	<u>23,683,612</u>
Total Pension Liability – Ending (a)	<u>\$ 19,526,620</u>	<u>\$ 20,544,199</u>	<u>\$ 22,019,508</u>	<u>\$ 23,683,612</u>	<u>\$ 23,044,759</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 607,146	\$ 660,568	\$ 702,513	\$ 705,080	\$ 756,982
Contributions – member	202,211	231,930	207,072	273,143	252,577
Net investment income	1,151,574	46,900	961,749	2,707,887	(1,260,237)
Benefit payments, including refunds of member contributions	(825,656)	(894,689)	(827,105)	(876,149)	(996,242)
Administrative expense	(11,410)	(19,050)	(68,806)	(86,440)	(13,775)
Other	-	-	44,795	736,553	31,487
Net Change in Plan Fiduciary Net Position	<u>1,123,865</u>	<u>25,659</u>	<u>1,020,218</u>	<u>3,460,074</u>	<u>(1,229,208)</u>
Plan Fiduciary Net Position – Beginning	<u>16,093,887</u>	<u>17,217,752</u>	<u>17,243,411</u>	<u>18,263,629</u>	<u>21,723,703</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 17,217,752</u>	<u>\$ 17,243,411</u>	<u>\$ 18,263,629</u>	<u>\$ 21,723,703</u>	<u>\$ 20,494,495</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,308,868</u>	<u>\$ 3,300,788</u>	<u>\$ 3,755,879</u>	<u>\$ 1,959,909</u>	<u>\$ 2,550,264</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.18%	83.93%	82.94%	91.72%	88.93%
Estimated Covered Employee Payroll	\$ 3,738,024	\$ 4,218,485	\$ 4,288,995	\$ 4,370,912	\$ 4,382,975
Net Pension Liability as a Percentage of Covered Employee Payroll	61.77%	78.25%	87.57%	44.84%	58.19%

SWATARA 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, 2015, 2016, 2017, and 2018, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/15	\$ 5,878,717	\$ 3,300,788	\$ 1,141,111
Net Pension Liability – 12/31/16	\$ 6,484,015	\$ 3,755,879	\$ 1,469,418
Net Pension Liability – 12/31/17	\$ 4,864,140	\$ 1,959,909	\$ (473,486)
Net Pension Liability – 12/31/18	\$ 5,633,900	\$ 2,550,264	\$ (37,233)

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
2009	\$ 421,517	\$ 421,517	\$ -	\$3,370,648	12.51%
2010	432,475	432,275	200	3,354,574	12.89%
2011	534,453	534,453	-	3,300,867	16.19%
2012	526,094	526,094	-	3,385,003	15.54%
2013	593,107	593,107	-	3,411,928	17.38%
2014	607,146	607,146	-	3,738,024	16.24%
2015	660,568	660,568	-	4,218,485	15.66%
2016	702,513	702,513	-	4,288,995	16.38%
2017	705,080	705,080	-	4,370,912	16.13%
2018	756,982	756,982	-	4,382,975	17.27%

SWATARA TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	-5.24%
2017	14.58%
2016	5.70%
2015	0.61%
2014	7.65%

SWATARA 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	\$ 15,474,843	\$ 17,116,741	\$ 1,641,898	90.4%
01-01-15	17,596,081	19,276,655	1,680,574	91.3%
01-01-17	20,119,415	21,596,522	1,477,107	93.2%

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 subject to a corridor between 80 to 120 percent of the 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.

SWATARA 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.

SWATARA 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	8 years
Asset valuation method	Asset smoothing subject to a corridor between 80-120% of market value.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0% per year post retirement

SWATARA TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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