

COMPLIANCE AUDIT

Upper Allen Township Employees Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

January 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
Upper Allen Township
Cumberland County
Mechanicsburg, PA 17055

We have conducted a compliance audit of the Upper Allen Township Employees 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 whether retirement benefits calculated for all three 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for all three plan members who elected to vest 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 in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individuals and comparing these amounts 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.

Upper Allen 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 Upper Allen Township Employees 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 Upper Allen Township Employees Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Upper Allen 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.

January 6, 2020



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 Upper Allen Township Employees 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.

The Upper Allen Township Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 662, as amended, for non-uniformed employees hired before November 1, 2014. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established August 1, 1971. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 25 active members, 10 terminated members eligible for vested benefits in the future, and 21 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 62 and 5 years of service.
Early Retirement	Age 55 and 5 years of service.
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

Lifetime monthly pension with 120 months guaranteed of 50% of average monthly pay based on final 3 years of career with pro-rata reduction for a service less than 15 years at normal retirement. The minimum monthly pension is \$50.

Survivor Benefit:

Before Retirement Eligibility	If participant was vested and married for at least one year, the surviving spouse shall receive the same benefit that would be payable if the participant had retired with an immediate joint and 50% survivor annuity on the day before the participant's death.
After Retirement Eligibility	None, except such benefit as is provided by the particular form of pension payment under which the pension benefits are being distributed.

Disability Benefit:

After 6 months of disability, benefit equal to the actuarial equivalent of the accrued benefit.

UPPER ALLEN TOWNSHIP EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Upper Allen Township has complied with the prior audit recommendation concerning the following:

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

Township officials complied with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

UPPER ALLEN TOWNSHIP EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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	\$ 216,923	\$ 204,839	\$ 215,081	\$ 195,529	\$ 205,305
Interest	444,514	465,563	499,978	552,977	591,348
Change of benefit terms	-	59,754	-	-	-
Difference between expected and actual experience	-	-	-	246,854	-
Changes of assumptions	-	(207,867)	-	(20,107)	-
Benefit payments, including refunds of member contributions	(233,098)	(243,156)	(257,737)	(261,797)	(295,495)
Net Change in Total Pension Liability	<u>428,339</u>	<u>279,133</u>	<u>457,322</u>	<u>713,456</u>	<u>501,158</u>
Total Pension Liability – Beginning	5,456,046	5,884,385	6,163,518	6,620,840	7,334,296
Total Pension Liability – Ending (a)	<u>\$ 5,884,385</u>	<u>\$ 6,163,518</u>	<u>\$ 6,620,840</u>	<u>\$ 7,334,296</u>	<u>\$ 7,835,454</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 304,603	\$ 339,553	\$ 306,166	\$ 302,752	\$ 401,401
Net investment income	238,670	16,061	333,194	897,064	(386,862)
Benefit payments, including refunds of member contributions	(233,098)	(243,156)	(257,737)	(261,797)	(295,495)
Administrative expense	(8,000)	(6,400)	(3,800)	(8,400)	(3,800)
Net Change in Plan Fiduciary Net Position	<u>302,175</u>	<u>106,058</u>	<u>377,823</u>	<u>929,619</u>	<u>(284,756)</u>
Plan Fiduciary Net Position – Beginning	4,859,558	5,161,733	5,267,791	5,645,614	6,575,233
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,161,733</u>	<u>\$ 5,267,791</u>	<u>\$ 5,645,614</u>	<u>\$ 6,575,233</u>	<u>\$ 6,290,477</u>
Net Pension Liability – Ending (a-b)	<u>\$ 722,652</u>	<u>\$ 895,727</u>	<u>\$ 975,226</u>	<u>\$ 759,063</u>	<u>\$ 1,544,977</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.72%	85.47%	85.27%	89.65%	80.28%
Estimated Covered Employee Payroll	\$ 1,546,762	\$ 1,566,894	\$ 1,552,825	\$ 1,552,320	\$ 1,517,884
Net Pension Liability as a Percentage of Covered Employee Payroll	46.72%	57.17%	62.80%	48.90%	101.78%

UPPER ALLEN TOWNSHIP EMPLOYEES 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 8.00%, 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 (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability – 12/31/15	\$ 1,483,507	\$ 895,727	\$ 385,124
Net Pension Liability – 12/31/16	\$ 1,587,117	\$ 975,226	\$ 443,646
Net Pension Liability – 12/31/17	\$ 1,437,818	\$ 759,063	\$ 171,459
Net Pension Liability – 12/31/18	\$ 2,241,207	\$ 1,544,977	\$ 942,366

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	\$ 231,109	\$ 231,109	\$ -	\$ -	
2010	236,134	236,136	(2)	-	
2011	281,192	282,341	(1,149)	-	
2012	284,299	284,601	(302)	-	
2013	305,226	315,372	(10,146)	-	
2014	304,583	304,603	(20)	1,546,762	19.69%
2015	339,553	339,553	-	1,566,894	21.67%
2016	306,166	306,166	-	1,552,825	19.72%
2017	302,752	302,752	-	1,552,320	19.50%
2018	301,397	401,401	(100,004)	1,517,884	26.44%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

UPPER ALLEN TOWNSHIP EMPLOYEES PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(4.69%)
2017	16.51%
2016	6.87%
2015	0.78%

UPPER ALLEN TOWNSHIP EMPLOYEES 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	\$ 4,137,358	\$ 5,080,181	\$ 942,823	81.4%
01-01-15	5,161,733	5,736,272	574,539	90.0%
01-01-17	5,645,614	6,847,587	1,201,973	82.4%

UPPER ALLEN TOWNSHIP EMPLOYEES 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.

UPPER ALLEN TOWNSHIP EMPLOYEES 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	10 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%

* Includes inflation at 3.0%

UPPER ALLEN TOWNSHIP EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Ken Martin
President, Board of Township Commissioners

Mr. Paul Rigney
Vice President, Board of Township Commissioners

Mr. Rick Castrani
Township Commissioner

Ms. Ginny Anderson
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Mr. Lou Fazekas
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Mr. Scott Fraser
Assistant Township Manager

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