

COMPLIANCE AUDIT

Hampton Township Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

July 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
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Township Council
Hampton Township
Allegheny County
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We have conducted a compliance audit of the Hampton Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014. 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × 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 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 also tested individual employee contributions for all 8 active employees hired during the audit period amounting to \$10,858 made to the pension plan during the audit period.
- × We determined whether retirement benefits calculated for all 5 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 lump sum retirement benefits calculated for the beneficiary of an active plan member who died 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

Hampton Township contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2012 and December 31, 2013 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 Hampton Township Non-Uniformed 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 Hampton Township Non-Uniformed 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 Hampton 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.

July 20, 2015


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 Hampton Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

Prior to January 1, 2013, the Hampton Township Non-Uniformed Pension Plan was a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 693, as amended. Effective January 1, 2013, employees hired prior to such date remain in the defined benefit pension plan which is currently controlled by the provisions of Ordinance No. 762, effective January 1, 2013. However also effective January 1, 2013, Hampton Township has established a separate defined contribution, money purchase pension plan, controlled by the provisions of Appendix A of Ordinance No. 762, for all administrative and union employees hired on or after January 1, 2013. The plans are also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1971. Active members of the defined benefit pension plan classified as administrative employees are required to contribute 3 percent, 4 percent and 5 percent of earnings for the years 2012, 2013 and 2014, respectively, to the plan. Union employees of the defined benefit pension plan are required to contribute 2 percent of earnings to the plan for the current audit period. All active members of the defined contribution money purchase plan are required to contribute 5 percent of earnings to the plan. The municipality is required to contribute 1 percent of each participant's wages plus an employer state aid contribution based on whether the employer received state aid for such participant for a given plan year. As of December 31, 2014, the defined benefit plan had 36 active members, 4 terminated members eligible for vested benefits in the future, and 22 retirees receiving pension benefits from the plan. As of December 31, 2014, the defined contribution money purchase plan had 8 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions for the members of the defined benefit pension plan are as follows:

Eligibility Requirements:

Normal Retirement	The earlier of age 64 and 48 months plus 1 day of service, or age 60 and 25 years of service
Early Retirement	Age 62 and 48 months plus 1 day of service
Vesting	Member is 100% vested after 48 months plus 1 day of service

Retirement Benefit:

A monthly benefit equal to 1.25% for union employees and 1.4% for non-union employees of average monthly compensation (total wages averaged over the 48 months preceding retirement or severance) plus \$3.50; multiplied by years of continuous service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Vesting but before Retirement	A one-time lump sum benefit equal to the greater of the participant's accumulated contributions or the actuarial equivalent present value of the participant's accrued benefit at date of death.
After Retirement Eligibility	The normal form of benefit payment is a life annuity. Optional forms are available at retirement for election by the participant that are actuarial equivalents of the Normal Form.

Service Related Disability Benefit:

Disablement occurring at least 6 months: after the completion of 48 months and 1 day of service, a monthly benefit equal to the accrued benefit as of the first day of the month preceding the last day of active employment, payable for the duration of disability.

HAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The township failed to certify 4 eligible non-uniformed employees (4 units) and understated payroll by \$82,710 on the Certification Form AG 385 filed in 2014. The 4 employees were hired prior to June 30, 2013; however, the township did not include these individuals on the certification form filed during 2014. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on unit value, the township received an underpayment of state aid of \$15,492 as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2014	Non-Uniformed	4	\$ 3,873	\$ 15,492

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2014 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan’s funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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.

HAMPTON 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, 2009, 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)
01-01-09	\$ 4,174,461	\$ 5,352,304	\$ 1,177,843	78.0%
01-01-11	4,788,347	6,463,345	1,674,998	74.1%
01-01-13	5,528,817	7,418,585	1,889,768	74.5%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

HAMPTON 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.

HAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 210,900	100.0%
2010	207,040	100.0%
2011	266,825	100.0%
2012	269,222	100.0%
2013	382,912	100.0%
2014	372,469	100.0%

HAMPTON 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.0%

* Includes inflation at 3.0%

HAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Defined Contribution Money Purchase Plan
(For employees hired on or after January 1, 2013)

Year Ended December 31	State Aid	Employer Contributions
2013	None	\$ 866
2014	None	27,495

HAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

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