

COMPLIANCE AUDIT

Millcreek Township Aggregated Pension Plan Erie County, Pennsylvania

December 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Millcreek Township
Erie County
Erie, PA 16505

We have conducted a compliance audit of the Millcreek Township Aggregated Pension Plan pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

The objective of the audit was to determine whether 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 area 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:

- For the period January 1, 2023 to December 31, 2023, we determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the deposit date of state aid and determining whether deposits were made within 30 days of receipt.

- For the period January 1, 2023 to December 31, 2023, we determined whether 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 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.
- For the period January 1, 2023 to December 31, 2023, we determined whether 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 using the rates obtained from the plan's governing document in effect for the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2023 to December 31, 2023, and through the completion of our fieldwork procedures, we determined whether retirement benefits calculated for non-uniformed plan members who retired, and the police plan member who elected to vest during the period noted, 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 or payable to the recipients.
- We determined whether the January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2024 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.
- For the period January 1, 2023 to December 31, 2023, we determined whether the special ad hoc postretirement reimbursement received by the municipality was authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- For the period January 1, 2023 to December 31, 2023, we determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Millcreek Township Aggregated Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions,

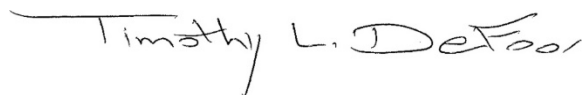
interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Millcreek Township Aggregated Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A
Net 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 Millcreek 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.



Timothy L. DeFoor
Auditor General
October 18, 2024

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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.

Annual state aid allocations are provided from a two 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 Millcreek Township Aggregated Pension Plan is also governed by implementing regulations 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.
- 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 Millcreek Township Aggregated Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2006-15, as amended, adopted pursuant to Act 600 for its police officers, and Ordinance No. 2013-4, adopted pursuant to Act 69 for its non-uniformed employees. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers and non-uniformed employees.

BACKGROUND – (Continued)

POLICE PENSION PLAN

The plan was established November 24, 1950. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2023, the plan had 66 active members, 3 terminated members eligible for vested benefits in the future, and 83 retirees receiving pension benefits from the plan.

GENERAL EMPLOYEES' PENSION PLAN

The plan was established April 1, 1960. Active members are required to contribute 4 percent of compensation for the first 20 years, then 2 percent thereafter, to the plan. As of December 31, 2023, the plan had 117 active members, 5 terminated members eligible for vested benefits in the future, and 88 retirees receiving pension benefits from the plan.

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: The township certified a non-uniformed employee as a police plan member on the Certification Form AG 385 filed in 2022 and certified seven police officers as non-uniformed plan members on the Certification Form AG 385 filed in 2023. The data contained on these certification forms is based on prior calendar year information.

Criteria: The instructions accompanying Certification Form AG 385 direct the preparer to select the roster type (fire, police, or non-uniformed) from a drop down menu for each certified employee. In addition, pursuant to Act 205, at Section 402(e)(2), the applicable number of units attributable to each eligible recipient city, borough, incorporated town, and township shall be two units for each police officer and firefighter and one unit for each employee other than police officer or firefighter.

Cause: Township officials attributed the certification errors to oversights. Additionally, the township lacked adequate internal control procedures, such as having another individual review the data certified, to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

Effect: The data submitted on these certification forms 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 allocations were based on unit value, the township received a net underpayment of state aid as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2022	Police	2	\$ 5,180	\$ 10,360
	Non-Uniformed	(1)	\$ 5,180	<u>(5,180)</u>
				<u>\$ 5,180</u>
2023	Police	(14)	\$ 5,828	\$ (81,592)
	Non-Uniformed	7	\$ 5,828	<u>40,796</u>
				<u>\$ (40,796)</u>
Net Underpayment Of State Aid				<u><u>\$ (35,616)</u></u>

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Although the additional state aid will be allocated to the township, the full amount of the 2023 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

MILLCREEK TOWNSHIP AGGREGATED 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, 2019, is as follows:

POLICE PENSION PLAN

	(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)
01-01-19	\$ 38,845,158	\$ 43,583,793	\$ 4,738,635	89.1%
01-01-21	45,937,711	49,105,783	3,168,072	93.5%
01-01-23	54,106,741	52,982,937	(1,123,804)	102.1%

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period subject to a corridor between 80 and 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.

MILLCREEK TOWNSHIP AGGREGATED 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, 2019, is as follows:

GENERAL EMPLOYEES’ PENSION PLAN

	(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)
01-01-19	\$ 33,914,439	\$ 35,853,347	\$ 1,938,908	94.6%
01-01-21	39,849,484	39,249,505	(599,979)	101.5%
01-01-23	46,016,965	40,678,072	(5,338,893)	113.1%

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period subject to a corridor between 80 and 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.

MILLCREEK TOWNSHIP AGGREGATED 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.

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

POLICE PENSION PLAN

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 1,408,495	\$ 1,408,495	\$ -	\$5,226,062	27.0%
2015	1,456,482	1,456,482	-	5,370,452	27.1%
2016	1,361,906	1,361,906	-	5,294,009	25.7%
2017	1,304,786	1,304,786	-	5,864,361	22.2%
2018	1,506,406	1,506,406	-	5,672,283	26.6%
2019	1,347,196	1,347,196	-	5,661,181	23.8%
2020	1,630,053	1,630,053	-	5,868,620	27.8%
2021	1,599,492	1,599,492	-	6,267,569	25.5%
2022	1,607,332	1,607,332	-	6,900,784	23.3%
2023	1,830,196	1,830,196	-	7,313,261	25.0%

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

GENERAL EMPLOYEES' PENSION PLAN

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 1,275,358	\$ 1,275,358	\$ -	\$7,022,989	18.2%
2015	1,289,742	1,289,427	315	6,733,943	19.1%
2016	1,156,607	1,156,607	-	6,757,962	17.1%
2017	1,160,541	1,160,541	-	6,542,196	17.7%
2018	1,219,292	1,219,292	-	6,990,709	17.4%
2019	1,219,904	1,219,905	(1)	6,886,397	17.7%
2020	1,252,609	1,252,609	-	7,410,295	16.9%
2021	1,102,277	1,102,277	-	7,055,851	15.6%
2022	540,903	540,904	(1)	7,058,168	7.7%
2023	537,247	537,247	-	7,324,805	7.3%

MILLCREEK TOWNSHIP AGGREGATED 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:

POLICE PENSION PLAN

Actuarial valuation date	January 1, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
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	7.0%
Projected salary increases *	5.0%
Cost-of-living adjustments	Effective on each October 1 each retiree receiving benefits for more than one year will receive an increase equal to the percentage change in the CPI. The total of all increases may not exceed 30% of the original benefit, nor may the total benefit exceed 75% of the average monthly salary used to calculate the original benefit.

* Includes inflation at 2.75%

MILLCREEK TOWNSHIP AGGREGATED 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:

GENERAL EMPLOYEES' PENSION PLAN

Actuarial valuation date	January 1, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
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	7.0%
Projected salary increases *	4.0%
Cost-of-living adjustments	If retired after 1/1/2009: each retiree receiving an early, normal or late retirement benefit for more than 1 year, will receive an increase equal to ½ the percentage change in the CPI-U. The total of all increases may not exceed 15% of the retiree's original benefit.

* Includes inflation at 2.75%

MILLCREEK TOWNSHIP AGGREGATED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Ms. Kim Clear
Chairman, Board of Township Supervisors

Ms. Melanne Page
Township Treasurer

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.