

LIMITED PROCEDURES ENGAGEMENT

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

February 2016



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 Supervisors
Rice Township
Luzerne County
Mountaintop, PA 18707

We conducted a Limited Procedures Engagement (LPE) of the Rice Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014 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 audit 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 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 plan members 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Rice 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 subsequent to this letter:

Finding – Noncompliance With Prior Audit Recommendation –
Undocumented Pension Benefit Calculation

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 letter were discussed with officials of Rice Township and, where appropriate, their responses have been included in this letter. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

February 9, 2016

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION:

PMRS – Pennsylvania Municipal Retirement System

RICE TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Rice Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this letter:

- Undocumented Pension Benefit Calculation

RICE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Undocumented Pension Benefit Calculation

Condition: As disclosed in our prior audit report, township officials could not provide complete and accurate documentation to support the pension benefit determination for a member of the pension plan who retired on January 4, 2011. According to township records, the individual was hired on November 1, 1990; however, the individual did not actually become a full-time employee until January 1, 1991. The pension benefit determined by PMRS incorrectly used a hire date of January 1, 1990.

Criteria: Ordinance No. 2002-1, adopting a separately executed plan agreement dated March 12, 2002, Section 1, states in part:

The plan shall cover all permanent, municipal employees, hereafter referred to as member, of the Township. Membership for elected officials and employees hired on a temporary or seasonal basis is prohibited, as is membership for individuals paid only on a fee basis. Individual membership shall be effective as of the date the Township entered into the Pennsylvania Municipal Retirement System or upon the expiration of the individual's probationary status, whichever is more recent.

Credited service shall accrue from the original member's date of hire or the expiration of the member's probationary period if one so existed. Credited service time earned prior to enrollment of the Township into the System shall be known as prior service.

Furthermore, Section 3 of the plan agreement, states:

The basic annual benefit shall be equal to one percent (1%) of the member's final salary multiplied by all years of credited service.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: If the pension benefit is based on an incorrect date of hire, the retiree is receiving an incorrect monthly pension benefit.

Recommendation: We again recommend that municipal officials review this situation with PMRS and determine if the individual's pension benefit should be adjusted.

In addition, we again recommend the municipality implement internal control procedures to ensure that all forms and documentation are reviewed prior to being submitted to PMRS to ensure future pension benefits are accurately determined.

RICE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials agreed with the finding without exception. A revised calculation was prepared in September, 2014; however, the benefit was not reduced. A second revision to the calculation was prepared by PMRS and the benefit was reduced effective January, 2016.

Auditor Conclusion: Based on the management response, it appears municipal officials have complied with the finding recommendation. Continued compliance will be evaluated during our next engagement.

RICE 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 | \$ 125,854 | \$ 193,269 | \$ 67,415 | 65.1% |
| 01-01-11 | 173,153 | 222,745 | 49,592 | 77.7% |
| 01-01-13 | 221,860 | 262,027 | 40,167 | 84.7% |

RICE 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.

RICE 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 | \$ 15,389 | 100.0% |
| 2010 | 15,474 | 100.0% |
| 2011 | 16,052 | 100.0% |
| 2012 | 16,859 | 100.0% |
| 2013 | 15,140 | 100.0% |
| 2014 | 15,447 | 100.1% |

RICE 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 |
| Remaining amortization period | 12 years |
| Asset valuation method | Fair value |
| Actuarial assumptions: | |
| Investment rate of return | 5.5%, net of expenses |
| Projected salary increases * | Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%) |
| Cost-of-living adjustments | 3.0%, where applicable |

* Includes inflation at 3.0%

RICE TOWNSHIP NON-UNIFORMED PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Rice Township Non-Uniformed Pension Plan
Luzerne County
3000 Church Road
Mountaintop, PA 18707

| | |
|----------------------------------|--|
| Ms. Marcia Thomas | Chairperson, Board of Township Supervisors |
| Mr. Robert Pipech | Vice Chairman, Board of Township Supervisors |
| Mr. Miller J. Stella, Jr. | Township Supervisor |
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| Ms. Kristine M. Cline | Pennsylvania Municipal Retirement System |

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