

LIMITED PROCEDURES ENGAGEMENT

Middle Smithfield Township Non-Uniformed Pension Plan Monroe County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

September 2017



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
Middle Smithfield Township
Monroe County
East Stroudsburg, PA 18302

We conducted a Limited Procedures Engagement (LPE) of the Middle Smithfield Township Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 total 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, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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 Middle Smithfield 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 findings further discussed later in this report:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

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

September 7, 2017

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the plan’s annual pension costs for the years 2015 and 2016 due to the failure to apply a terminated member’s forfeiture, as illustrated below:

	<u>2015</u>	<u>2016</u>
State aid allocation	\$ 67,942	\$ 74,903
Forfeiture available	10,183	6,639
Actual municipal pension costs	<u>(74,789)</u>	<u>(75,605)</u>
Excess state aid	\$ 3,336	\$ 5,937
Less certification error addressed in Finding No. 2	<u>-</u>	<u>(671)</u>
Excess state aid	<u>\$ 3,336</u>	<u>\$ 5,266</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual pension costs.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2015 and 2016, in the total amount of \$8,602, must be returned to the Commonwealth for redistribution.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality return the \$8,602 of excess state aid received in the years 2015 and 2016 to the Commonwealth from the non-uniformed pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: The township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the plan.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: Due to a mathematical error in totaling employee payroll on the personnel roster which serves as support for Certification Form AG 385, the township understated payroll by \$68,598 on the Certification Form AG 385 filed in 2013. In addition, the township certified 1 ineligible non-uniformed employee (1 unit) and overstated payroll by \$11,180 on the Certification Form AG 385 filed in 2016. The data contained on these certification forms 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 internal control procedures to ensure the accuracy of the data certified.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 plan. Because the township’s state aid allocations were based on pension costs, the township received a net underpayment of state aid of \$3,445 as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2013	6.0%	\$ (68,597)	\$ (4,116)
2016	6.0%	\$ 11,180	\$ 671
Net Underpayment of State Aid			<u><u>\$ (3,445)</u></u>

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification errors, the full amount of the 2013 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 engagement of the plan.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 142,901	\$ 157,530
Interest	109,381	120,569
Change of benefit terms	-	
Difference between expected and actual experience	(12,347)	(8,710)
Changes of assumptions	-	3,700
Benefit payments, including refunds of member contributions	(54,148)	(35,843)
Net Change in Total Pension Liability	<u>185,787</u>	<u>237,246</u>
Total Pension Liability - Beginning	1,970,233	2,156,020
Total Pension Liability - Ending (a)	<u><u>\$ 2,156,020</u></u>	<u><u>\$ 2,393,266</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 62,359	\$ 71,847
Contributions – PMRS assessment	-	920
Contributions – member	71,090	83,882
Net investment income	109,696	120,847
Market value investment income	(2,707)	(137,852)
Benefit payments, including refunds of member contributions	(54,148)	(35,843)
Administrative expense	(780)	(920)
Other	(4,207)	(5,038)
Net Change in Plan Fiduciary Net Position	<u>181,303</u>	<u>97,843</u>
Plan Fiduciary Net Position - Beginning	1,948,751	2,130,054
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,130,054</u></u>	<u><u>\$ 2,227,897</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 25,966</u></u>	<u><u>\$ 165,369</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.8%	93.1%
Estimated Covered Employee Payroll	\$ 1,074,145	\$ 1,227,465
Net Pension Liability as a Percentage of Covered Employee Payroll	2.4%	13.5%

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED 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, calculated using the discount rate of 5.5%, 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 (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability	\$ 603,364	\$ 165,369	\$ (265,612)

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 64,650	None
2012	45,187	None
2013	47,888	\$ 9,540
2014	57,437	6,450
2015	67,942	None
2016	74,903	None

Note: In 2014, the township met the plan's \$68,659 funding requirement through the deposit of \$57,437 in state aid and \$4,892 in terminated employee forfeitures and \$6,450 in employer contributions.

In 2015, the township met the plan's \$74,789 funding requirement through the deposit of \$67,942 in state aid and \$10,183 in terminated employee forfeitures. The township received excess state aid of \$3,336 (see Finding No. 1).

In 2016, the township met the plan's \$75,605 funding requirement through the deposit of \$74,903 in state aid and \$6,639 in terminated employee forfeitures. The township received excess state aid of \$5,937 (see Finding No. 1).

MIDDLE SMITHFIELD 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

Ms. Annette Atkinson
Chairman, Board of Township Supervisors

Ms. Michele L. Clewell
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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.