

# LIMITED PROCEDURES ENGAGEMENT

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## Terre Hill Borough Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

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August 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Terre Hill Borough  
Lancaster County  
Terre Hill, PA 17581

We conducted a Limited Procedures Engagement (LPE) of the Terre Hill Borough 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.
- 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 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 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 Terre Hill Borough 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 – Failure To Determine, Submit, Budget And Pay The Financial Requirements And Minimum Municipal Obligation Of The Plan


Finding No. 2 – Failure To File Actuarial Valuation Report

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 borough 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 Terre Hill Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

August 1, 2017

  
EUGENE A. DEPASQUALE  
Auditor General

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TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 - Failure To Determine, Submit, Budget, And Pay The Financial Requirements  
And Minimum Municipal Obligation Of The Plan**

Condition: Plan officials did not determine the financial requirements of the plan (FRP) or the minimum municipal obligation (MMO) of the non-uniformed pension plan for the years 2016 and 2017, as required by Act 205. In addition, the chief administrative officer (CAO) of the plan failed to submit the FRP and MMO to the governing body of the municipality, as required by Act 205. As a result, the borough did not budget and pay the MMO that was due to the plan for the year 2016, and that will be due for the year 2017.

Criteria: With regard to the FRP, Section 302(b) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the financial requirements of the pension plan for the following plan year.

With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Further, Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

Section 302(d) of Act 205 states:

Annually, the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 - (Continued)**

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials did not comply with the Act 205 requirements because plan officials did not submit the necessary information to the plan's actuary to complete the FRP and MMOs for the years 2016 and 2017.

Effect: The proper determination and submission of the plan's FRP and MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year.

The failure to properly budget and pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to determine and pay the 2016 MMO by the December 31, 2016, deadline, the municipality must include interest, as required by Act 205.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the CAO determine the FRP and MMO of the pension plan for the years 2016 and 2017 and submit these calculations to the governing body, as required by Act 205. When the MMOs have been determined, we recommend that the municipality pay the MMO due to the non-uniformed pension plan for the year 2016, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next engagement of the plan. In addition, we recommend that the MMO for the year 2017 be paid to the plan by the December 31, 2017 deadline.

Furthermore, plan officials should establish adequate internal control procedures, which could include a written procedure manual, to assist them in complying with Act 205 reporting and funding requirements.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 - (Continued)**

Management's Response: Municipal officials agreed with the finding without exception. Subsequent to the exit conference a written response was requested from the municipality; however, no such response has been provided.

Auditor's Conclusion: Due to the potential withhold of state aid, the borough'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 - Failure To File Actuarial Valuation Report**

Condition: Actuarial valuation report form PC-203C, for the non-uniformed pension plan with a valuation date of January 1, 2015, was not submitted to the former Public Employee Retirement Commission by the March 31, 2016, deadline, as required by Act 205 and remained delinquent at the completion of our engagement fieldwork.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 - (Continued)**

Cause: The failure to file the necessary actuarial valuation report occurred because plan officials did not submit the necessary information to the plan's actuary in order to prepare the actuarial valuation report.

Effect: Data from the January 1, 2015 Act 205 actuarial valuation report is necessary to calculate the borough's 2016 state aid allocation; therefore, the borough's 2016 state aid allocation cannot be calculated and released until the necessary report is filed. In addition, future state aid, if any, will be withheld until the necessary report is filed. Furthermore, the plan may receive less state aid than it would have received had the report been filed in a timely manner.

Recommendation: We recommend that the municipality take immediate action to complete the January 1, 2015 Act 205 actuarial valuation report which was due by March 31, 2016 and submit it to the Municipal Pension Reporting Program (formerly the Public Employee Retirement Commission), 321 Finance Building, Harrisburg, PA 17120. By submitting the report as soon as possible, the municipality can minimize the length of time the pension aid will be withheld due to the delinquent filing of the required report.

Furthermore, to insure that future actuarial filing deadlines are met and to improve pension plan administration, we recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

Management's Response: Municipal officials agreed with the finding without exception. Subsequent to the exit conference a written response was requested from the municipality; however, no such response has been provided.

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



TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

TERRE HILL BOROUGH 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, 2011, 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)
01-01-11	\$ 380,730	\$ 443,369	\$ 62,639	85.9%
01-01-13	412,114	488,623	76,509	84.3%

Note: The market values of the plan’s assets at 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 which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. This method will lower contributions in the years of less than expected returns and increase contributions in years greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The 01-01-15 actuarial valuation report was not prepared. See Finding No. 2 contained in the Findings and Recommendations section of this report.

TERRE HILL BOROUGH 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.

TERRE HILL BOROUGH 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
2011	\$ 22,809	100.0%
2012	24,000	100.0%
2013	27,079	100.0%
2014	27,875	100.0%
2015	25,989	100.0%

Note: The 2016 MMO was not determined. See Finding No. 1 contained in the Findings and Recommendations section of this report.

TERRE HILL BOROUGH 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	9 years
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	7.25%
Projected salary increases	4.50%
Cost-of-living adjustments	None assumed

TERRE HILL BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Robert R. Rissler**  
Mayor

**Mr. Leonard E. Pierce**  
Council President

**Ms. Valerie Gregory**  
Chief Administrative Officer

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