

# LIMITED PROCEDURES ENGAGEMENT

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## Towamensing Township Non-Uniformed Pension Plan Carbon County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

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October 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

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We conducted a Limited Procedures Engagement (LPE) of the Towamensing Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2015 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2010 to December 31, 2015, 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, 2010 to December 31, 2015, 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 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 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, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, respectively, in accordance with Act 205 and whether selected information provided on this report 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 Towamensing 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 – Partial Compliance With Prior Audit Recommendation –  
Receipt Of State Aid In Excess Of Entitlement

The finding contained in this LPE results letter repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this letter.

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 contents of this letter were discussed with officials of Towamensing 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.

October 3, 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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TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Towamensing Township has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the township reimbursed \$9,246 to the Commonwealth for the receipt of state aid in excess of entitlement in 2010 and 2011; however, plan officials failed to reconcile the township's annual state aid allocation and employee forfeitures available to reduce municipal contributions with the plan's actual pension costs for the years 2012 and 2014 as further discussed in the Finding and Recommendation section of this letter.

TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in the prior audit report, the township received state aid in excess of the plan’s annual pension costs in the years 2010 and 2011. During the current engagement period, the township reimbursed \$9,246 to the Commonwealth for the excess state aid received; however, plan officials failed to reconcile the township’s annual state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s annual pension costs for the years 2012 and 2014.

The township received state aid in excess of the plan’s annual pension costs in the years 2012 and 2014. In 2014, the excess state aid was due to the failure to apply a terminated member’s forfeiture, as illustrated below:

	<u>2012</u>	<u>2014</u>
State aid allocation	\$ 9,667	\$ 9,154
Forfeiture available	-	6,717
Actual municipal pension costs	<u>(7,392)</u>	<u>(9,804)</u>
Excess state aid	<u>\$ 2,275</u>	<u>\$ 6,067</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.

TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

In addition, Section 13 of the plan agreement states:

In the event a member's service with the Township is terminated for any reason whatsoever before the funds set aside for such member are vested or if the member elects not to receive a benefit, then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due from the Township for the remaining or future members of this Plan.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure full compliance with this Department's prior audit recommendation.

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 excess state aid received in the years 2012 and 2014, in the total amount of \$8,342, must be returned to the Commonwealth for redistribution.

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

Recommendation: We recommend that the municipality return the \$8,342 of excess state aid received in the years 2012 and 2014 to the Commonwealth. 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 municipal contributions made to the pension plan 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: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the LPE results letter and through our next engagement of the plan.

TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this letter cites an overpayment of state aid to the township in the amount of \$8,342. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension 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.

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 9,083	None
2011	8,028	None
2012	7,392	None
2013	7,914	\$ 1,676
2014	3,087	None
2015	9,085	695

Note: In 2014, the township met the plan's \$9,804 funding requirement through the deposit of \$3,087 in state aid and \$6,717 in terminated employee forfeitures.

TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
DISTRIBUTION LIST

This letter was initially distributed to the following:

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

**Ms. Penny Kleintop**  
Chairperson, Board of Township Supervisors

**Ms. Brenda Drew**  
Chief Administrative Officer

**Kristine M. Cline**  
Pennsylvania Municipal Retirement System

This letter is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the letter 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](mailto:news@PaAuditor.gov).