

LIMITED PROCEDURES ENGAGEMENT

Union Township Non-Uniformed Pension Plan Berks County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

February 2018



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
Union Township
Berks County
Douglassville, PA 19518

We conducted a Limited Procedures Engagement (LPE) of the Union 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 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, 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 retirement benefits calculated for the plan member 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 the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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 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 Union 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 later in this report:

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


The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been fully 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 recommendation noted in this 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 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 Union 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.

January 22, 2018


EUGENE A. DEPASQUALE
Auditor General

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UNION TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

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

- Receipt Of State Aid In Excess Of Entitlement

The township returned \$13,337 of excess state aid received in the years 2010 and 2012 to the Commonwealth with interest; however, the township again received state aid in excess of the plan's annual pension costs for the years 2013 and 2016 as disclosed in the Finding and Recommendation section of this report.

UNION 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 Status of Prior Finding section of this report, although the township partially complied with our prior audit recommendation by returning the excess state aid received in the years 2010 and 2012 to the Commonwealth, the township again received state aid in excess of the plan’s annual pension costs for the years 2013 and 2016, as illustrated below:

	<u>2013</u>	<u>2016</u>
State aid allocation	\$ 16,483	\$ 20,482
Employee Forfeitures available	-	5,267
Actual municipal pension costs	<u>(16,210)</u>	<u>(16,692)</u>
Excess state aid	<u>\$ 273</u>	<u>\$ 9,057</u>

In 2016, the township received state aid in excess of the plan’s annual pension costs due to its failure to properly apply forfeitures available from terminated members’ accounts.

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.

Furthermore, the PMRS agreement at Section 14, 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.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials again 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 defined contribution pension costs as previously recommended.

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 2013 and 2016 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$9,330 of excess state aid received in the years 2013 and 2016 to the Commonwealth from the non-uniformed pension plan and their general fund. 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 again 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 defined contribution 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: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Compliance will be evaluated during our next engagement of the plan.

UNION 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	\$ 39,978	\$ 40,179
Interest	25,461	29,036
Difference between expected and actual experience	88	92
Changes of assumptions	-	149
Benefit payments, including refunds of member contributions	(975)	(975)
Net Change in Total Pension Liability	<u>64,552</u>	<u>68,481</u>
Total Pension Liability – Beginning	448,185	512,737
Total Pension Liability - Ending (a)	<u>\$ 512,737</u>	<u>\$ 581,218</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 17,660	\$ 17,640
Contribution Employee	22,578	22,779
PMRS investment income	25,447	29,022
Market value investment income	(1,813)	(33,098)
Benefit payments, including refunds of member contributions	(975)	(975)
PMRS administrative expense	(260)	(240)
Additional expenses	(976)	(1,210)
Net Change in Plan Fiduciary Net Position	<u>61,661</u>	<u>33,918</u>
Plan Fiduciary Net Position - Beginning	443,588	505,249
Plan Fiduciary Net Position - Ending (b)	<u>\$ 505,249</u>	<u>\$ 539,167</u>
Net Pension Liability - Ending (a-b)	<u>\$ 7,488</u>	<u>\$ 42,051</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.54%	92.77%
Estimated Covered Employee Payroll	\$ 243,874	\$ 297,520
Net Pension Liability as a Percentage of Covered Employee Payroll	3.07%	14.13%

UNION 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ 108,789	\$ 7,488	\$ (93,697)
Net Pension Liability - 12/31/15	\$ 157,054	\$ 42,051	\$ (72,842)

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 12,914	\$ 4,746
2012	17,611	None
2013	16,210	None
2014	16,520	1,140
2015	14,764	2,876
2016	14,506	None

Note: In 2016, the township met the plan's \$16,692 funding requirement through the deposit of \$14,506 in state aid and \$5,267 in terminated employee forfeitures.

UNION 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

Mr. Donald E. Basile
Chairman, Board of Township Supervisors

Mr. L. Terry Kennedy
Vice-Chairman, Board of Township Supervisors

Mr. Nelson Ott, Jr.
Township Supervisor

Mr. Jason A. Wager
Township Manager

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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