

# LIMITED PROCEDURES ENGAGEMENT

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

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February 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](http://www.PaAuditor.gov)

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Board of Township Supervisors  
Washington Township  
Greene County  
Prosperity, PA 15329

We conducted a Limited Procedures Engagement (LPE) of the Washington 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 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, 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.
- Whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Washington 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 – Eligible Employees Not Participating In Pension Plan

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 Washington 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.

February 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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WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Washington Township has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current engagement period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

WASHINGTON 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 non-uniformed pension plan’s annual pension costs in the years 2012, 2013, 2014, and 2015, due to the failure to apply terminated members’ forfeitures, as illustrated below:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
State aid allocation	\$ 9,424	\$ 6,210	\$ 6,024	\$ 7,314	\$ 28,972
Forfeiture available	6,913	11,050	9,921	3,819	31,703
Actual municipal pension costs	<u>(8,948)</u>	<u>(11,205)</u>	<u>(11,418)</u>	<u>(10,566)</u>	<u>(42,137)</u>
Excess state aid	<u>\$ 7,389</u>	<u>\$ 6,055</u>	<u>\$ 4,527</u>	<u>\$ 567</u>	<u>\$ 18,538</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.

Also, Section 13 of the pension plan agreement with PMRS states:

Additional Provisions: 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 the plan.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Cause: Due to a change in the board of township supervisors and personnel, the township was not aware that forfeitures must be used to satisfy the employer contribution due the plan in the year it becomes available.

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 overpayments of state aid in the years 2012, 2013, 2014, and 2015, in the total amount of \$18,538, 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 \$18,538 of excess state aid received in the years 2012, 2013, 2014, and 2015 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.

We also 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 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 report and through our next audit of the plan.



WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Eligible Employees Not Participating In Pension Plan**

Condition: Subsequent to the current engagement period, a full-time employee was hired in 2016 and is not a member of the pension plan, although he meets the requirements for plan participation. Also, subsequent to the current engagement period, an eligible supervisor-employee who was hired in 2016 is not a member of the pension plan, although he also meets the requirements for plan participation.

Criteria: Sections 606(b) and (b)(1) of Act 69, state, in part:

Any benefit provided to or for the benefit of a supervisor employed by the township in an employee capacity under this act in the form of inclusion in a pension plan paid for in whole or in part by the township... is determined by the board of township auditors; however:

Supervisors are eligible for inclusion in township pension plans only if they are employed by the township in any employee capacity under this act. In order to be eligible for inclusion in the plans, supervisor-employees' must meet the same requirements as other employees of the township who are eligible to participate in a pension plan. Pension plans shall not improperly discriminate in favor of a supervisor-employee.

In addition, Section 1 of the pension plan agreement with PMRS states, in part:

Coverage: This plan shall cover all permanent municipal employees, hereinafter referred to as "Member", of the Township.

Cause: Due to a change in the board of supervisors and personnel, the township was not aware that all permanent municipal employees or permanent supervisor-employees are required to be members of the plan.

Effect: The accounts of the full-time employee and the supervisor-employee have not been properly funded.

Recommendation: We recommend that the township enroll the eligible full-time employee and eligible supervisor-employee hired in 2016 in the non-uniformed pension plan. We also recommend that the township contact PMRS to determine what action needs to be taken to properly fund the accounts of the eligible employees.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

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

Finding No. 1 contained in this report cites an overpayment of state aid to the township in the amount of \$18,538. 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.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 6 and 7 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	\$ 19,399
Interest	23,422
Difference between expected and actual experience	(17,565)
Benefit payments, including refunds of member contributions	(6,249)
Net Change in Total Pension Liability	19,007
Total Pension Liability – Beginning	422,320
Total Pension Liability - Ending (a)	\$ 441,327
Plan Fiduciary Net Position	
Contributions – employer	\$ 1,497
Contributions – member	8,161
PMRS investment income	23,895
Market value investment income	(18,364)
Benefit payments, including refunds of member contributions	(6,249)
PMRS administrative expense	(180)
Additional administrative expense	(916)
Net Change in Plan Fiduciary Net Position	7,844
Plan Fiduciary Net Position - Beginning	430,117
Plan Fiduciary Net Position - Ending (b)	\$ 437,961
Net Pension Liability - Ending (a-b)	\$ 3,366
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.2%
Estimated Covered Employee Payroll	\$ 109,896
Net Pension Liability as a Percentage of Covered Employee Payroll	3.1%

WASHINGTON 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, 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	\$ 86,232	\$ 3,366	\$ (79,292)

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 8,886	\$ 1,787
2011	8,566	2,556
2012	2,035	N/A
2013	160	N/A
2014	1,497	N/A
2015	6,731	N/A

Note: In 2012, the township met the plan's \$8,948 funding requirement through the deposit of \$2,035 in state aid and \$6,913 in terminated employee forfeitures. In 2013, the township met the plan's \$11,205 funding requirement through the deposit of \$160 in state aid and \$11,050 in terminated employee forfeitures. In 2014, the township met the plan's \$11,418 funding requirement through the deposit of \$1,497 in state aid and \$9,921 in terminated employee forfeitures. In 2015, the township met the plan's \$10,566 funding requirement through the deposit of \$6,731 in state aid and \$3,819 in terminated employee forfeitures.

WASHINGTON 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. Walter Stout**  
Chairman, Board of Township Supervisors

**Mr. Troy Smith**  
Vice-Chairman, Board of Township Supervisors

**Ms. Correan J. Stewart**  
Township Supervisor

**Ms. P. Diane Headlee**  
Secretary

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

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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