

LIMITED PROCEDURES ENGAGEMENT

Clarion Township Non-Uniformed Pension Plan Clarion County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

March 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Board of Township Supervisors
Clarion Township
Clarion County
Strattanville, PA 16258

We conducted a Limited Procedures Engagement (LPE) of the Clarion Township Non-Uniformed Pension Plan for the period January 1, 2013 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 findings 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 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, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 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 Clarion 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 - Receipt of State Aid In Excess Of Entitlement

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 Clarion 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.

March 10, 2017


EUGENE A. DEPASQUALE
Auditor General

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CLARION TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Failure To Fund Member's Account

During the current engagement period, municipal officials deposited the contribution due to the member's account for the year 2011 with interest.

Status Of Prior Finding

- Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Subsequent to the issuance of our prior audit report, it was determined by PMRS that the monies were not all due to the pension plan. Of the \$1,741 reported in the finding, \$219 was determined to be owed to the plan and \$1,522 was determined to be excess state aid to be returned to the Commonwealth. Municipal officials complied with this decision and in March of 2014 the respective amounts were deposited to the pension plan and returned to the Commonwealth with interest.

CLARION TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the pension plan’s annual pension costs in the year 2013, as illustrated below:

State aid allocation	\$ 13,348
Actual municipal pension costs	<u>(12,383)</u>
Excess state aid	<u>\$ 965</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 were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual pension costs and reimburse the difference to the Commonwealth.

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 year 2013 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$965 of excess state aid received in the year 2013, plus interest, to the Commonwealth from the township’s 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.

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

Auditor 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 pension plan.

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

The supplementary information contained on Pages 3 and 4 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	\$ 17,473	\$ 17,502
Interest	22,924	24,498
Difference between expected and actual experience	1,901	(18,522)
Changes of assumptions	-	1,768
Benefit payments, including refunds of member contributions	(14,884)	(12,285)
Net Change in Total Pension Liability	<u>27,414</u>	<u>12,961</u>
Total Pension Liability - Beginning	417,532	444,946
Total Pension Liability - Ending (a)	<u>\$ 444,946</u>	<u>\$ 457,907</u>
 Plan Fiduciary Net Position		
Contributions - employer*	\$ 14,273	\$ 14,065
Contributions - PMRS assessment	-	180
Contributions - employee	3,382	3,437
PMRS investment income	22,753	24,291
Market value investment income	326	(42,727)
Benefit payments, including refunds of member contributions	(14,884)	(12,285)
PMRS administrative expense	(160)	(180)
Additional administrative expense	(873)	(1,013)
Net Change in Plan Fiduciary Net Position	<u>24,817</u>	<u>(14,232)</u>
Plan Fiduciary Net Position - Beginning	410,454	435,271
Plan Fiduciary Net Position - Ending (b)	<u>\$ 435,271</u>	<u>\$ 421,039</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 9,675</u>	<u>\$ 36,868</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.83%	91.95%
 Estimated Covered Employee Payroll	\$ 138,420	\$ 140,654
 Net Pension Liability as a Percentage of Covered Employee Payroll	6.99%	26.21%

* The Statutorily Required Contribution and the actual Contribution were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the Municipal account.

CLARION 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	\$ 112,937	\$ 36,868	\$ (37,469)

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 12,939	\$ 303
2011	11,543	None
2012	12,160	1,426
2013	12,383	None
2014	13,369	633
2015	13,842	403

CLARION 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. Bergen C. Dilley
Chairman, Board of Township Supervisors

Mr. Frank Wilson
Township Supervisor

Mr. Robert Deemer
Township Supervisor

Ms. Karen Lue Wilson
Chief Administrative Officer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

Ms. Kristine M. Cline
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.