

# LIMITED PROCEDURES ENGAGEMENT

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## Hamilton Township Non-Uniformed Pension Plan Monroe County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

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January 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
Hamilton Township  
Monroe County  
Sciota, PA 18354

We conducted a Limited Procedures Engagement (LPE) of the Hamilton 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 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 total 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the 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 this 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 Hamilton 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 – Municipal Contributions Made In Excess Of Contributions Required To Fund The 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 Hamilton Township and, where appropriate, their responses have been included in this report.

January 5, 2018

  
EUGENE A. DEPASQUALE  
Auditor General

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HAMILTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

· Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the township reimbursed \$692 to the Commonwealth for the overpayment of state aid received in 2011.

HAMILTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: The township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2016</u>
Actual municipal pension costs	\$ 12,512
Forfeitures available	<u>( - )</u>
Adjusted actual municipal pension costs	12,512
State aid allocated	<u>( 12,513)</u>
Municipal contributions required to fund plan	<u>\$ -</u>
Actual municipal contributions made	\$ 9,388
Municipal contributions required to fund plan	<u>( - )</u>
Excess municipal contributions	<u>\$ 9,388</u>

Criteria: Section 9.1(a) of the PMRS Agreement states:

The Municipality shall contribute six hundred and twenty-five dollars (\$625) to each Member’s Account per quarter in accordance with the Board’s policy regarding the treatment of member contributions.

Also, Section 9.1(b) of the PMRS Agreement states:

For Members who do not earn Credited Service for the full quarter, the Municipality shall contribute an amount equal to a proportion of the Member’s actual Credited Service earned during the quarter.

HAMILTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund in the amount of \$9,388 was generated as of December 31, 2016. The unallocated reserve fund maintained by the non-uniformed pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid with the plan's defined contribution pension costs. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan.

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the township liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets which represent nonstate aid funds, to the township's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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

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

HAMILTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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	\$ 32,207	\$ 32,986
Interest	67,860	72,412
Difference between expected and actual experience	3,424	3,700
Changes of assumptions	-	3,438
Benefit payments, including refunds of member contributions	(21,933)	(21,933)
Net Change in Total Pension Liability	<u>81,558</u>	<u>90,603</u>
Total Pension Liability – Beginning	1,232,814	1,314,372
Total Pension Liability - Ending (a)	<u>\$ 1,314,372</u>	<u>\$ 1,404,975</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 12,680	\$ *12,313
Contributions – PMRS assessment	-	*180
Contribution – member	19,707	20,674
PMRS investment income	67,640	72,137
Market value investment income	(810)	(73,383)
Benefit payments, including refunds of member contributions	(21,933)	(21,933)
PMRS administrative expense	(180)	(180)
Additional administrative expense	(2,594)	(3,007)
Net Change in Plan Fiduciary Net Position	<u>74,510</u>	<u>6,801</u>
Plan Fiduciary Net Position – Beginning	1,216,645	1,291,155
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,291,155</u>	<u>\$ 1,297,956</u>
Net Pension Liability - Ending (a-b)	<u>\$ 23,217</u>	<u>\$ 107,019</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.23%	92.38%
Estimated Covered Employee Payroll	\$ 250,828	\$ 298,504
Net Pension Liability as a Percentage of Covered Employee Payroll	9.26%	35.85%

\* For 2015, contribution amount of \$12,313 plus the PMRS reassessment amount of \$180 is different by \$187 when compared to the actual contribution of \$12,680 (see page 6) which was deposited into the pension plan.

HAMILTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (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	\$ 258,990	\$ 23,217	\$ (210,513)
Net Pension Liability - 12/31/15	\$ 361,003	\$ 107,019	\$ (145,022)

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 14,555	None
2012	12,680	None
2013	12,680	None
2014	12,680	None
2015	12,680	None
2016	12,513	\$ 9,388

HAMILTON 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. Lawrence Buzzard**  
Chairman, Board of Township Supervisors

**Mr. Donald Leap**  
Township Supervisor

**Mr. David B. Fenner**  
Secretary/Treasurer

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

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