

LIMITED PROCEDURES ENGAGEMENT

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

December 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

EUGENE A. DEPASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Zerbe Township
Northumberland County
Trevorton, PA 17881

We conducted a Limited Procedures Engagement (LPE) of the Zerbe 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 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Zerbe 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 – Failure To File Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Failure To Fully Fund Member's Account

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 report were discussed with officials of Zerbe 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.



EUGENE A. DEPASQUALE
Auditor General

November 28, 2017

CONTENTS

	<u>Page</u>
Status of Prior Finding	1
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	2
Finding No. 2 – Failure To Fully Fund Member’s Account	
Supplementary Information	4
Summary of Deposited State Aid and Employer Contributions	6
Report Distribution List	7

ZERBE TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Receipt Of State Aid In Excess Of Entitlement

The township returned \$3,273 to the Commonwealth for the overpayments of state aid received in 2011 and 2012.

ZERBE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To File Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to file Certification Form AG 385 in 2016; therefore the township failed to certify 3 eligible non-uniformed employees and payroll of \$112,707 on the Certification Form AG 385 that was due March 31, 2016. While the township submitted its Certification Form AG 385 in 2017 in a timely manner, plan officials failed to report any eligible plan members or their corresponding payroll on the forms; therefore, the township failed to certify 3 eligible non-uniformed employees and payroll of \$116,462 on the Certification Form AG 385 filed in 2017. The data contained on these certification forms is based on prior calendar year information.

Criteria: The general instructions that accompany Certification Form AG 385 disclose that municipalities must complete and return the Certification Form AG 385 to the Department of the Auditor General annually by March 31st. Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: Since the township failed to file the form in 2016 and had no reportable data on the form filed in 2017, it did not receive state aid allocations in 2016 and 2017. Based on the correct payroll, normal cost and actuarial data, the township is entitled to receive state aid allocations in the amounts of \$4,508 for 2016 and \$4,658 for 2017.

Although the state aid for 2016 and 2017 will be allocated to the township, those allocations were not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

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

ZERBE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Fully Fund Member’s Account

Condition: In 2014, the township did not fully fund the account of a member who was hired November 24, 2010 and became a plan member on January 1, 2014. The township did not begin to fund the member’s account until after July 1, 2014.

Criteria: Section 12 of the plan agreement dated February 2, 1998, adopted by Ordinance No. 1998-2, sets the municipal contribution rate at four percent of compensation per member.

Cause: Township officials were unaware of their obligation to make a contribution for the new plan member.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Due to township’s failure to properly fund the referenced member’s account, the township must now pay interest on the delinquent contribution.

Recommendation: We recommend that the township deposit the contribution due to the member’s account for the year 2014, with interest, from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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

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

**ZERBE 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	\$ 9,542	\$ 12,922
Interest	13,065	14,029
Difference between expected and actual experience	6,422	1,559
Changes of assumptions	-	1,823
Benefit payments, including refunds of member contributions	(15,877)	(10,786)
Net Change in Total Pension Liability	<u>13,152</u>	<u>19,547</u>
Total Pension Liability - Beginning	<u>242,423</u>	<u>255,575</u>
Total Pension Liability - Ending (a)	<u>\$ 255,575</u>	<u>\$ 275,122</u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 3,636	\$ 4,508
Contributions - PMRS assessment	-	100
Contribution - member	6,021	8,414
PMRS investment income	12,933	13,854
Market value investment income	5,521	(12,797)
Benefit payments, including refunds of member contributions	(15,877)	(10,786)
PMRS administrative expense	(100)	(100)
Additional administrative expense	(496)	(578)
Net Change in Plan Fiduciary Net Position	<u>11,638</u>	<u>2,615</u>
Plan Fiduciary Net Position - Beginning	<u>237,987</u>	<u>249,625</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 249,625</u>	<u>\$ 252,240</u>
 Net Pension Liability - Ending (a-b)	<u>\$ 5,950</u>	<u>\$ 22,882</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 97.7%	 91.7%
 Estimated Covered Employee Payroll	 \$ 88,014	 \$ 112,707
 Net Pension Liability as a Percentage of Covered Employee Payroll	 6.8%	 20.3%

* 2014 employer contributions include administrative expenses paid from actuarial surplus.

**ZERBE 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	\$ 64,109	\$ 22,882	\$ (17,405)

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 4,073	None
2012	1,721	None
2013	2,913	\$ 117
2014	3,030	491
2015	4,380	128
2016	None	4,658

ZERBE 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. Michael Schwartz
Chairman, Board of Township Supervisors

Mr. Michael Mazur
Secretary/Treasurer

Ms. Cristie Stiely
Township Clerk

Ms. Charity Rosenberry, CPA
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.