

LIMITED PROCEDURES ENGAGEMENT

East Penn Township Police Pension Plan Carbon County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

February 2016



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
East Penn Township
Carbon County
Lehighton, PA 18235

We conducted a Limited Procedures Engagement (LPE) of the East Penn Township Police Pension Plan for the period January 1, 2012 to December 31, 2014 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.
- × 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.

- × 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 the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the East Penn Township Police 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 subsequent to this letter:

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 2 – Failure To Deposit State Aid Into An Eligible 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 letter were discussed with officials of East Penn Township and, where appropriate, their responses have been included in this letter. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

February 19, 2016

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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EAST PENN TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

East Penn Township has complied with the prior audit recommendations concerning the following:

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

During the current audit period, municipal officials accurately reported the required pension data on the Certification Forms AG 385; however, plan officials failed to deposit the full amount of the state aid that was reimbursed to the municipality into an eligible plan, as noted in the finding and recommendation contained in this engagement report.

- Failure To Deposit State Aid Into An Eligible Pension Plan

During the current audit period, the township deposited the balance of the additional 2007 and 2008 state aid allocations, plus applicable interest, into the non-uniformed pension plan.

Noncompliance With Prior Audit Recommendation

East Penn Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this letter:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

EAST PENN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding – Noncompliance With Prior Audit Recommendation - Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2009, as required by Act 205. The MMO determined by the municipality understated payroll by \$57,131. Based upon an estimate prepared by this department, the municipality had an unpaid 2008 MMO balance of \$5,741.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year's end using the payroll rates in effect as of the date of the determination.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

EAST PENN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials failed to include the payroll of all active members of the pension plan in the MMO calculation. In addition, the township failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation due to extensive turnover in officials responsible for administering the pension plan.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2009 MMO by the December 31, 2009, deadline, the municipality must add the 2009 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We again recommend that the municipality pay the MMO due to the police pension plan for the year 2009, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan. The municipality can partially comply with this finding recommendation by depositing the balance of the state aid reimbursement noted in Finding No. 2 into the police pension plan.

Furthermore, we recommend that in the future, plan officials properly determine plan's MMO in accordance with Act 205 requirements.

EAST PENN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management’s Response: Municipal officials agreed with the finding without exception. Municipal officials stated that this finding must have been overlooked during the communications, transactions and calculations made to address the prior audit findings and underpayments. Municipal officials indicated that they have a made a commitment to pay the remaining 2009 MMO balance of \$5,741 plus interest, with the assistance of their plan custodian.

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

Finding No. 2 – Failure To Deposit State Aid Into An Eligible Pension Plan

Condition: The municipality received a \$10,631 state aid reimbursement in July of 2012 as a result of an underpayment of its 2009, 2010 and 2011 state aid allocations. Since the township paid \$7,415 from its general fund to satisfy its police and non-uniformed plans’ minimum municipal obligations, the township was authorized to reimburse its general fund \$7,415; however, the remaining balance of \$3,216 must be deposited into an eligible pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the balance of the additional allocation of state aid received was deposited timely into an eligible pension plan.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the remaining \$3,216 balance of the additional 2009, 2010 and 2011 state aid allocations, with interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into an eligible pension plan. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

EAST PENN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

EAST PENN TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2009, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-09	\$ 33,422	\$ 7,889	\$ (25,533)	423.7%
01-01-11	46,038	10,248	(35,790)	449.2%
01-01-13	59,330	32,724	(26,606)	181.3%

EAST PENN TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

EAST PENN TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 10,590	45.8%
2010	5,887	100.3%
2011	4,098	100.0%
2012	6,200	107.8%
2013	6,776	114.4%
2014	8,391	100.0%

EAST PENN TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2013
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	3.5%

EAST PENN TOWNSHIP POLICE PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

East Penn Township Police Pension Plan
Carbon County
167 Municipal Road
Leighton, PA 18235

Mr. William G. Schwab	Chairman, Board of Township Supervisors
Mr. Richard T. Deluca	Vice-Chairman, Board of Township Supervisors
Ms. Deanna Cunfer	Township Supervisor
Mr. Alice I. Berger	Township Supervisor
Mr. John Strockoz	Township Supervisor
Ms. Tracey Burbage	Treasurer

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