

# LIMITED PROCEDURES ENGAGEMENT

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## Butler Township Police Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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November 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Butler Township  
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We conducted a Limited Procedures Engagement (LPE) of the Butler Township Police Pension Plan for the period January 1, 2016 to December 31, 2018 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 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 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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 Butler 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 finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

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 Butler 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.

October 18, 2019



EUGENE A. DEPASQUALE  
Auditor General

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BUTLER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid**

Condition: The township understated police officers' payroll by a total of \$93,826 and overstated non-uniformed employees' payroll by a total of \$35,016 on the Certification Form AG 385 filed in 2018. In addition, the township understated one police officer's payroll by \$4,298 and understated one non-uniformed employee's payroll by \$6,297 on the Certification Form AG 385 filed in 2019. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and failed to follow the instructions accompanying the certification form to ensure that actual W-2 earnings were certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township's state aid allocations were based on pension costs, the township received a net underpayment of state aid of \$7,756 as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	Police	9.66%	\$ (93,826)	\$ (9,064)
	Non-Uniformed	6.0%	\$ 35,014	<u>2,101</u>
	Total			<u>\$ (6,963)</u>
2019	Police	9.66%	\$ (4,298)	\$ (415)
	Non-Uniformed	6.0%	\$ (6,297)	<u>(378)</u>
	Total			<u>\$ (793)</u>
Net Underpayment of State Aid				<u>\$ (7,756)</u>

BUTLER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Although the additional state aid will be allocated to the township, the full amount of the 2018 and 2019 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

BUTLER TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 through 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, 2016, 2017, AND 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 55,027	\$ 73,226	\$ 76,887
Interest	136,315	157,138	169,644
Change of benefit terms	-	-	304,823
Difference between expected and actual experience	-	70,440	-
Changes of assumptions	-	58,000	-
Benefit payments, including refunds of member contributions	(75,789)	(79,610)	(75,789)
Net Change in Total Pension Liability	115,553	279,194	475,565
Total Pension Liability – Beginning	1,686,808	1,802,361	2,081,555
Total Pension Liability – Ending (a)	<u>\$ 1,802,361</u>	<u>\$ 2,081,555</u>	<u>\$ 2,557,120</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 59,301	\$ 52,712	\$ 79,747
Contributions – member	24,891	37,120	37,544
Net investment income	61,132	159,124	(125,257)
Benefit payments, including refunds of member contributions	(75,789)	(79,610)	(75,789)
Administrative expense	(3,300)	-	-
Net Change in Plan Fiduciary Net Position	66,235	169,346	(83,755)
Plan Fiduciary Net Position – Beginning	1,452,318	1,518,553	1,687,899
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,518,553</u>	<u>\$ 1,687,899</u>	<u>\$ 1,604,144</u>
Net Pension Liability – Ending (a-b)	<u>\$ 283,808</u>	<u>\$ 393,656</u>	<u>\$ 952,976</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.3%	81.1%	62.7%
Estimated Covered Employee Payroll	\$ 576,712	\$ 651,294	\$ 789,991
Net Pension Liability as a Percentage of Covered Employee Payroll	49.2%	60.4%	120.6%

BUTLER TOWNSHIP POLICE 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, 2016, 2017, and 2018, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/16	\$ 515,786	\$ 283,808	\$ 88,561
Net Pension Liability – 12/31/17	\$ 668,087	\$ 393,656	\$ 163,654
Net Pension Liability – 12/31/18	\$ 1,298,415	\$ 952,976	\$ 664,069

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2009	\$ 55,939	\$ 68,968	\$ (13,029)		
2010	45,698	63,747	(18,049)		
2011	74,335	89,172	(14,837)		
2012	50,835	50,835	-		
2013	55,765	70,518	(14,753)		
2014	53,488	54,253	(765)	\$ 433,169	12.52%
2015	59,301	59,301	-	488,568	12.14%
2016	36,331	59,301	(22,970)	576,712	10.28%
2017	48,672	52,712	(4,040)	651,294	8.09%
2018	46,873	79,747	(32,874)	789,991	10.09%

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.



BUTLER TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(6.41%)
2017	11.85%
2016	5.26%
2015	(2.44%)
2014	4.07%
2013	12.49%
2012	9.91%
2011	4.92%
2010	9.35%
2009	14.01%

BUTLER 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, 2013, 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)
01-01-13	\$ 1,473,752	\$ 1,511,391	\$ 37,639	97.5%
01-01-15	1,739,155	1,619,730	(119,425)	107.4%
01-01-17	1,822,264	1,930,801	108,537	94.4%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

The Actuarial Accrued Liability as of 01-01-17 reflects increases in the plan's benefit provisions made from the prior valuation due to changes to actuarial assumptions, which include a change to mortality assumptions.

BUTLER 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.

BUTLER 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	16 years
Asset valuation method	The actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

BUTLER TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Brian Kisenwether**  
Chairman, Board of Township Supervisors

**Mr. Charles Altmiller**  
Vice Chairman, Board of Township Supervisors

**Mr. Frank Polidora**  
Secretary/Treasurer

**Ms. Jennifer Pecora**  
Township Manager

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