

LIMITED PROCEDURES ENGAGEMENT

Dickinson Township Non-Uniformed Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

March 2019



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
Dickinson Township
Cumberland County
Mount Holly Springs, PA 17108

We conducted a Limited Procedures Engagement (LPE) of the Dickinson Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, 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 annuity 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, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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 Dickinson 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 Dickinson 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.

January 31, 2019



EUGENE A. DEPASQUALE
Auditor General

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DICKINSON 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 plan’s annual pension costs for the year 2016. In 2017, the township returned \$12,756 of state aid to the Commonwealth, then in 2018 returned an additional \$3,379 of state aid to the Commonwealth, for a total of \$16,135. The township still needs to return \$1,407 of excess state aid, as illustrated below:

Actual municipal pension costs	\$ 22,003
Employee forfeitures available	<u>(17,666)</u>
Adjusted actual municipal pension costs	\$ 4,337
State aid allocation	<u>(21,879)</u>
Excess state aid	\$ 17,542
State aid returned to the Commonwealth	<u>(16,135)</u>
Remaining excess state aid	<u><u>\$ 1,407</u></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.

In addition, Section 9.1 of the plan agreement states:

The Municipality shall contribute ten percent (10%) of each Member’s Compensation.

Cause: Plan officials failed to establish adequate internal control procedures to accurately reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual annual pension costs.

DICKINSON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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 2016 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the remaining \$1,407 of excess state aid received in the year 2016 to the Commonwealth from the non-uniformed pension plan. 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.

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation and municipal contributions made to the pension plan and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth. In addition, if employee forfeitures become available, plan officials should consult with PMRS to determine if additional municipal contributions need to be made to meet the plan's funding requirements.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

DICKINSON TOWNSHIP NON-UNIFORMED 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, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 38,697	\$ 35,174
Interest	20,959	23,296
Difference between expected and actual experience	(5,265)	323
Changes of assumptions	-	916
Benefit payments, including refunds of member contributions	(7,266)	(8,810)
Net Change in Total Pension Liability	<u>47,125</u>	<u>50,899</u>
Total Pension Liability – Beginning	370,239	417,364
Total Pension Liability – Ending (a)	<u><u>\$ 417,364</u></u>	<u><u>\$ 468,263</u></u>
Plan Fiduciary Net Position		
Contributions – employer *	\$ 25,319	\$ 27,186
Contributions – PMRS assessment	-	280
Contributions – member	10,987	10,315
PMRS investment income	21,077	23,390
Market value investment income	(6,706)	(25,826)
Benefit payments, including refunds of member contributions	(7,266)	(8,810)
PMRS Administrative expense	(260)	(280)
Additional Administrative expense	(808)	(975)
Net Change in Plan Fiduciary Net Position	<u>42,343</u>	<u>25,280</u>
Plan Fiduciary Net Position – Beginning	367,568	409,911
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 409,911</u></u>	<u><u>\$ 435,191</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 7,453</u></u>	<u><u>\$ 33,072</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.21%	92.94%
Estimated Covered Employee Payroll	\$ 277,099	\$ 248,583
Net Pension Liability as a Percentage of Covered Employee Payroll	2.69%	13.30%

* 2014 Employer Contributions include (\$2,651) transferred from the Municipal Reserve Account.
2015 Employer Contributions include \$2,327 deposited into the Municipal Reserve Account.

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 33,384	\$ 39,975
Interest	24,778	26,555
Difference between expected and actual experience	(16,617)	-
Changes of assumptions	3,776	-
Benefit payments, including refunds of member contributions	<u>(15,727)</u>	<u>(12,509)</u>
Net Change in Total Pension Liability	29,594	54,021
Total Pension Liability – Beginning	<u>468,263</u>	<u>497,857</u>
Total Pension Liability – Ending (a)	<u><u>\$ 497,857</u></u>	<u><u>\$ 551,878</u></u>
Plan Fiduciary Net Position		
Contributions – employer *	\$ 19,119	\$ 11,221
Contributions – PMRS assessment	300	320
Contributions – member	11,701	11,961
PMRS investment income	25,821	26,608
Market value investment income	11,218	59,612
Benefit payments, including refunds of member contributions	(15,727)	(12,509)
PMRS Administrative expense	(260)	(300)
Additional Administrative expense	<u>(1,265)</u>	<u>(1,224)</u>
Net Change in Plan Fiduciary Net Position	50,907	95,689
Plan Fiduciary Net Position – Beginning	<u>435,191</u>	<u>486,098</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 486,098</u></u>	<u><u>\$ 581,787</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 11,759</u></u>	<u><u>\$ (29,909)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.64%	105.42%
Estimated Covered Employee Payroll	\$ 216,829	\$ 280,143
Net Pension Liability as a Percentage of Covered Employee Payroll	5.42%	(10.68%)

* 2016 Employer Contributions include (\$2,584) transferred from the Municipal Reserve Account.
2017 Employer Contributions include (\$14,405) transferred from the Municipal Reserve Account.

DICKINSON 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, 2014 and 2015, calculated using the discount rate of 5.50 percent, 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/14	\$ 82,713	\$ 7,453	\$ (66,896)
Net Pension Liability – 12/31/15	\$ 116,320	\$ 33,072	\$ (48,662)

In addition, the following presents the net pension liability of the township as of December 31, 2016, and 2017, calculated using the discount rate of 5.25%, 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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability – 12/31/16	\$ 95,971	\$ 11,759	\$ (69,817)
Net Pension Liability – 12/31/17	\$ 65,525	\$ (29,909)	\$ (122,780)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 27,270	None
2013	28,272	None
2014	27,109	\$ 861
2015	25,119	20
2016	4,337	None
2017	25,946	None

Note: In 2012, the township met the plan's \$30,832 funding requirement through the deposit of \$27,270 in state aid and \$3,562 in terminated employee forfeitures. In 2016, the township met the plan's \$22,003 funding requirement through the deposit of \$4,337 in state aid and \$17,666 in terminated employee forfeitures. In 2017, the township met the plan's \$28,334 funding requirement through the deposit of \$25,946 in state aid and \$2,388 in terminated employee forfeitures.

DICKINSON 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. Thomas Imholte
Chairman, Board of Township Supervisors

Mr. Larry Barrick
Township Manager

Ms. Marjorie Metzger
Secretary/Treasurer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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