

# LIMITED PROCEDURES ENGAGEMENT

---

## East Carroll Township Non-Uniformed Pension Plan Cambria County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

---

November 2019



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  
East Carroll Township  
Cambria County  
Carrolltown, PA 15722

We conducted a Limited Procedures Engagement (LPE) of the East Carroll Township Non-Uniformed Pension Plan for the period January 1, 2015 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 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 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, 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the East Carroll 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment 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 East Carroll 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.

November 1, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Finding And Recommendation:	
Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.....	1
Supplementary Information .....	3
Report Distribution List .....	10

EAST CARROLL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The township overstated payroll on the Certification Form AG 385 filed in 2016, 2017, 2018 and 2019 by including supervisor meeting pay in the amount of \$1,872 on the annual form. 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.

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 plan. Because the township’s 2016 and 2017 state aid allocations were based on unit value, the incorrect certification of pension data did not affect the township’s state aid allocations received during those years. However, because the township’s 2018 and 2019 state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost %</u>	<u>Payroll Overstatement</u>	<u>State Aid Overpayment</u>
2018	9.77%	\$ 1,872	\$ 183
2019	9.77%	\$ 1,872	<u>183</u>
Total Overpayment Of State Aid			<u><u>\$ 366</u></u>

Recommendation: We recommend that the total excess state aid, in the amount of \$366, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension 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 the check.

EAST CARROLL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

We also 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: The township's compliance with the finding and recommendation will be monitored subsequent to the release of the report and through our next pension plan engagement.

EAST CARROLL TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 and 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	\$ 4,713	\$ 5,260
Interest	4,007	5,053
Difference between expected and actual experience	9,755	-
Changes of assumptions	-	(658)
Net Change in Total Pension Liability	<u>18,475</u>	<u>9,655</u>
Total Pension Liability – Beginning	68,142	86,617
Total Pension Liability – Ending (a)	<u>\$ 86,617</u>	<u>\$ 96,272</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 23,594	\$ 18,236
Contributions – PMRS assessment	-	40
PMRS investment income	2,710	4,252
Market value investment income	(464)	(5,134)
PMRS Administrative expense	(40)	(40)
Additional administrative expense	(104)	(177)
Net Change in Plan Fiduciary Net Position	<u>25,696</u>	<u>17,177</u>
Plan Fiduciary Net Position – Beginning	39,317	65,013
Plan Fiduciary Net Position – Ending (b)	<u>\$ 65,013</u>	<u>\$ 82,190</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 21,604</u>	<u>\$ 14,082</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.06%	85.37%
 Estimated Covered Employee Payroll	\$ 46,401	\$ 53,400
 Net Pension Liability as a Percentage of Covered Employee Payroll	46.56%	26.37%

EAST CARROLL 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	\$ 4,969	\$ 5,317
Interest	5,568	5,830
Difference between expected and actual experience	(3,415)	-
Changes of assumptions	2,329	-
Net Change in Total Pension Liability	<u>9,451</u>	<u>11,147</u>
Total Pension Liability – Beginning	96,272	105,723
Total Pension Liability – Ending (a)	<u><u>\$ 105,723</u></u>	<u><u>\$ 116,870</u></u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 19,506	\$ 18,975
Contributions – PMRS assessment	40	40
PMRS investment income	5,498	6,519
Market value investment income	578	13,797
PMRS administrative expense	(40)	(40)
Additional administrative expense	(269)	(300)
Net Change in Plan Fiduciary Net Position	<u>25,313</u>	<u>38,991</u>
Plan Fiduciary Net Position – Beginning	82,190	107,503
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 107,503</u></u>	<u><u>\$ 146,494</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ (1,780)</u></u>	<u><u>\$ (29,624)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.68%	125.35%
 Estimated Covered Employee Payroll	\$ 54,274	\$ 55,740
 Net Pension Liability as a Percentage of Covered Employee Payroll	(3.28%)	(53.15%)



EAST CARROLL 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%, 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	\$ 30,263	\$ 21,604	\$ 13,944
Net Pension Liability – 12/31/15	\$ 23,645	\$ 14,082	\$ 5,633

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	\$ 8,286	\$ (1,780)	\$ (10,693)
Net Pension Liability – 12/31/17	\$ (18,497)	\$ (29,624)	\$ (39,477)

EAST CARROLL TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

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
2014	\$ 5,849	\$ 23,594	\$ (17,745)	\$ 46,401	50.85%
2015	10,434	18,276	(7,842)	53,400	34.22%
2016	10,797	19,546	(8,749)	54,274	36.01%
2017	9,838	19,015	(9,177)	55,740	34.11%
2018	10,429	15,294	(4,865)	-	

\* Due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.

EAST CARROLL TOWNSHIP NON-UNIFORMED 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	\$ 26,660	\$ 60,067	\$ 33,407	44.4%
01-01-15	65,872	86,617	20,745	76.0%
01-01-17	112,473	105,723	(6,750)	106.4%

EAST CARROLL TOWNSHIP NON-UNIFORMED 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 CARROLL TOWNSHIP NON-UNIFORMED 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	N/A
Remaining amortization period	N/A
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

EAST CARROLL 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. William D. Maurer**  
Chairman, Board of Township Supervisors

**Ms. Mary Jane Rowland**  
Secretary

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

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).