

# LIMITED PROCEDURES ENGAGEMENT

---

## East Hanover Township Non-Uniformed Pension Plan Dauphin 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



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 Hanover Township  
Dauphin County  
Narvon, PA 17555

We conducted a Limited Procedures Engagement (LPE) of the East Hanover 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 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, 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.
- We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the East Hanover 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 – Failure To Properly Fund Members' Accounts

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 East Hanover 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.

March 15, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Status of Prior Finding .....	1
Finding and Recommendation:	
Finding – Failure To Properly Fund Members’ Accounts .....	2
Supplementary Information .....	4
Summary of Deposited State Aid and Employer Contributions .....	7
Report Distribution List .....	8

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

East Hanover Township has complied with the prior audit recommendation concerning the following:

· Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the township reimbursed \$10,498 to the Commonwealth for the overpayment of state aid in 2012.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Properly Fund Members’ Accounts**

Condition: The township made excess employer contributions to the accounts of two plan members in 2015, as illustrated below:

<u>Employee Hire Date</u>	<u>Actual Employer Contributions</u>	<u>Required Employer Contributions</u>	<u>Excess Contributions</u>
01/02/15	\$ 4,028	\$ 2,980	\$ 1,048
08/12/15	968	399	<u>569</u>
		Total	<u><u>\$ 1,617</u></u>

In addition, for the same two members, the township deducted excess employee contributions in 2015 which were deposited into the members’ accounts, as illustrated below:

<u>Employee Hire Date</u>	<u>Actual Employee Contributions</u>	<u>Required Employee Contributions</u>	<u>Excess Contributions</u>
01/02/15	\$ 806	\$ 596	\$ 210
08/12/15	258	80	<u>178</u>
		Total	<u><u>\$ 388</u></u>

Criteria: The plan’s governing document at Section 9.1(a) states:

The Municipality shall contribute ten percent (10%) of each Member’s Compensation in accordance with the Board’s policy regarding the treatment of member contributions.

Also, Section 9.2(a) states:

Members shall contribute two percent (2%) of their Compensation.

In addition, Section 9.2(b) states:

Members may optionally contribute up to, but no more than eighteen percent (18%) of their Compensation to the fund the annuity described in Article VI, Section 6.1.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Furthermore, the East Hanover Township Personnel Policy, adopted January 1, 2002, provides that full benefits, including pension benefits, will be available to new employees after 90 day of employment.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that contributions for new members did not commence until after 90 days of employment.

Effect: The failure to properly contribute to the members' accounts has resulted in certain plan members receiving benefits in excess of those to which they are entitled in accordance with the plan's governing document.

Recommendation: We recommend that the township review the applicable members' accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that all members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

Management's Response: Municipal officials agreed with the finding without exception and indicated that they will take appropriate action to comply with the recommendation upon receipt of the report.

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

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

The supplementary information contained on Pages 4 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	\$ 66,349	\$ 77,224
Interest	81,771	89,059
Difference between expected and actual experience	8,672	(12,214)
Changes of assumptions	-	6,717
Benefit payments, including refunds of member contributions	(26,841)	(40,743)
Net Change in Total Pension Liability	<u>129,951</u>	<u>120,043</u>
Total Pension Liability – Beginning	1,443,878	1,573,829
Total Pension Liability – Ending (a)	<u><u>\$ 1,573,829</u></u>	<u><u>\$ 1,693,872</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 47,126	\$ 35,288
Contributions – PMRS assessment	-	340
Contributions – member	22,552	28,483
PMRS investment income	81,763	89,005
Market value investment income	233	(97,183)
Benefit payments, including refunds of member contributions	(26,841)	(40,743)
PMRS Administrative expense	(300)	(340)
Additional Administrative expense	(3,136)	(3,710)
Net Change in Plan Fiduciary Net Position	<u>121,397</u>	<u>11,140</u>
Plan Fiduciary Net Position – Beginning	1,428,862	1,550,259
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,550,259</u></u>	<u><u>\$ 1,561,399</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 23,570</u></u>	<u><u>\$ 132,473</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.50%	92.18%
Estimated Covered Employee Payroll	\$ 433,363	\$ 487,408
Net Pension Liability as a Percentage of Covered Employee Payroll	5.44%	27.18%



EAST HANOVER 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	\$ 74,298	\$ 83,403
Interest	93,293	96,308
Difference between expected and actual experience	1,580	-
Changes of assumptions	9,252	-
Benefit payments, including refunds of member contributions	(46,629)	(46,545)
Net Change in Total Pension Liability	<u>131,794</u>	<u>133,166</u>
Total Pension Liability – Beginning	1,693,872	1,825,666
Total Pension Liability – Ending (a)	<u>\$ 1,825,666</u>	<u>\$ 1,958,832</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 54,520	\$ 69,728
Contributions – PMRS assessment	340	380
Contributions – member	19,778	22,748
PMRS investment income	92,433	95,259
Market value investment income	39,109	211,245
Benefit payments, including refunds of member contributions	(46,629)	(46,545)
PMRS Administrative expense	(300)	(380)
Additional Administrative expense	(4,528)	(4,381)
Net Change in Plan Fiduciary Net Position	<u>154,723</u>	<u>348,054</u>
Plan Fiduciary Net Position – Beginning	1,561,399	1,716,122
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,716,122</u>	<u>\$ 2,064,176</u>
Net Pension Liability – Ending (a-b)	<u>\$ 109,544</u>	<u>\$ (105,344)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.00%	105.38%
Estimated Covered Employee Payroll	\$ 545,204	\$ 606,551
Net Pension Liability as a Percentage of Covered Employee Payroll	20.09%	(17.37%)

\* Deviations between the Employer contributions reported in this schedule and the Summary of Deposited State Aid and Employer Contributions on page 7 of this report may be due to contributions to or transfers from the municipal reserve account.

EAST HANOVER 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	\$ 289,114	\$ 23,570	\$ (237,587)
Net Pension Liability – 12/31/15	\$ 410,538	\$ 132,473	\$ (140,372)

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	\$ 414,383	\$ 109,544	\$ (190,312)
Net Pension Liability – 12/31/17	\$ 228,692	\$ (105,344)	\$ (434,608)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 22,958	None
2013	34,959	\$ 8,471
2014	38,727	3,827
2015	35,288	4,560
2016	39,372	15,509
2017	55,059	5,979

Note: In 2012, the township met the plan's \$41,955 funding requirement through the deposit of \$22,958 in state aid and \$18,997 in terminated employee forfeitures.

In 2014, the township met the plan's \$44,096 funding requirement through the deposit of \$38,727 in state aid and \$1,542 in terminated employee forfeitures and \$3,827 in employer contributions.

In 2015, the township met the plan's \$47,464 funding requirement through the deposit of \$35,288 in state aid and \$9,234 in terminated employee forfeitures and \$4,560 in employer contributions. (See Finding regarding excess contributions.)

EAST HANOVER 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 Yingling**  
Chairman, Board of Township Supervisors

**Mr. Paul Cornell**  
Township Manager

**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).