

# LIMITED PROCEDURES ENGAGEMENT

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## Elk Township Non-Uniformed Pension Plan Warren County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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January 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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We conducted a Limited Procedures Engagement (LPE) of the Elk Township Non-Uniformed Pension Plan for the period January 1, 2015 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 LPE 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 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 Elk 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 findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement

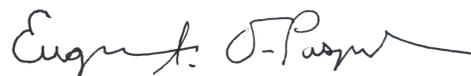
Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

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 report were discussed with officials of Elk 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 10, 2019



EUGENE A. DEPASQUALE  
Auditor General

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ELK TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior LPE Report Recommendation

Elk Township has partially complied with the prior LPE report recommendation concerning the following:

· Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the township reimbursed \$3,076 to the Commonwealth for the excess state aid received in 2012, 2013 and 2014. However, plan officials again failed to reconcile the amount of state aid allocated to the pension plan and forfeitures available to reduce municipal contributions with the pension costs attributable to full-time employees, as further discussed in the Findings and Recommendations section of this report.

ELK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in the Status of prior Findings section of this report, although the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayments of state aid received in 2012, 2013 and 2014, plan officials again failed to reconcile the amount of state aid allocated to the pension plan and forfeitures available to reduce municipal contributions with the pension costs attributable to full-time employees in the year 2016, as illustrated below:

Actual municipal full time pension costs	\$ 2,62
Forfeitures available	<u>(1,910)</u>
Adjusted actual municipal full time pension costs	\$ 711
State aid allocated	<u>(2,442)</u>
Excess state aid received	<u><u>\$ 1,731</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.

Cause: Plan officials again failed to establish adequate and consistent internal control procedures to reconcile the township's state aid allocation and employee forfeitures available to reduce municipal contributions with the plan's full time pension costs and full compliance with the prior recommendation.

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.

ELK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the municipality return the \$1,731 of excess state aid received in the year 2016 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 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 again recommend that, in the future, plan officials reconcile the township's annual state aid allocation and any available employee forfeitures with the plan's annual full time pension costs and reimburse any excess state aid received to the Commonwealth.

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

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

**Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: The township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan in the year 2017, as illustrated below:

Actual municipal pension costs	\$ 3,241
State aid allocated	<u>(2,748)</u>
Municipal contributions required to fund plan	493
Actual municipal contributions made	<u>3,241</u>
Excess municipal contributions	<u><u>\$ 2,748</u></u>

ELK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Section 13 of the agreement with the Pennsylvania Municipal Retirement System adopted by Ordinance No. 59 states, in part:

The Township will contribute quarterly five percent (5%) of each member's compensation to the System.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund existed as of December 31, 2017.

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the township liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets which represent excess municipal contributions to the township's general fund.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan's annual pension costs.

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.

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

The supplementary information contained on Pages 5 through 7 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	\$ 1,566	\$ 4,520
Interest	4,649	4,948
Difference between expected and actual experience	(2,929)	(928)
Changes of assumptions	-	231
Benefit payments, including refunds of member contributions	<u>(1,467)</u>	<u>(1,467)</u>
Net Change in Total Pension Liability	1,819	7,304
Total Pension Liability – Beginning	<u>87,469</u>	<u>89,288</u>
Total Pension Liability – Ending (a)	<u>\$ 89,288</u>	<u>\$ 96,592</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 1,838	\$ 421
Contributions – PMRS assessment	-	40
Contributions – employee	-	1,657
PMRS investment income	4,842	5,275
Market value investment income	2,115	(5,482)
Benefit payments, including refunds of member contributions	(1,467)	(1,467)
PMRS administrative expense	(120)	(80)
Additional administrative expense	<u>(186)</u>	<u>(220)</u>
Net Change in Plan Fiduciary Net Position	7,022	144
Plan Fiduciary Net Position – Beginning	<u>87,586</u>	<u>94,608</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 94,608</u>	<u>\$ 94,752</u>
Net Pension Liability – Ending (a-b)	<u>\$ (5,320)</u>	<u>\$ 1,840</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.96%	98.10%
Estimated Covered Employee Payroll	\$ 8,527	\$ 57,271
Net Pension Liability as a Percentage of Covered Employee Payroll	(62.39%)	3.21%

\* The 2014 employer contributions include \$120 of administrative expense and \$32 transfer from the municipal reserve. The 2015 employer contributions do not include \$2,483 in terminated employee forfeitures and \$40 administrative expense.

ELK 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	\$ 5,347	\$ 5,906
Interest	5,349	5,641
Difference between expected and actual experience	200	-
Changes of assumptions	274	-
Benefit payments, including refunds of member contributions	(1,852)	(1,467)
Net Change in Total Pension Liability	<u>9,318</u>	<u>10,080</u>
Total Pension Liability – Beginning	96,592	105,910
Total Pension Liability – Ending (a)	<u>\$ 105,910</u>	<u>\$ 115,990</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 2,911	\$ 3,085
Contributions – PMRS assessment	(20)	-
Contributions – employee	2,416	2,784
PMRS investment income	5,633	5,895
Market value investment income	2,300	13,029
Benefit payments, including refunds of member contributions	(1,852)	(1,467)
PMRS administrative expense	(120)	(120)
Additional administrative expense	(276)	(271)
Net Change in Plan Fiduciary Net Position	<u>10,992</u>	<u>22,935</u>
Plan Fiduciary Net Position – Beginning	94,752	105,744
Plan Fiduciary Net Position – Ending (b)	<u>\$ 105,744</u>	<u>\$ 128,679</u>
Net Pension Liability – Ending (a-b)	<u>\$ 166</u>	<u>\$ (12,689)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.84%	110.94%
Estimated Covered Employee Payroll	\$ 58,603	\$ 62,427
Net Pension Liability as a Percentage of Covered Employee Payroll	0.28%	(20.33%)

\* The 2016 employer contributions do not include \$180 administrative expense and \$20 municipal reserve deposit. The 2017 employer contributions do not include \$2,784 of excess contributions or \$120 administrative expense.

ELK 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 5.5%, 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 (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability – 12/31/14	\$ 10,656	\$ (5,320)	\$ (21,140)
Net Pension Liability – 12/31/15	\$ 19,279	\$ 1,840	\$ (15,452)

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	\$ 19,466	\$ 166	\$ (18,993)
Net Pension Liability – 12/31/17	\$ 8,713	\$ (12,689)	\$ (33,957)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 2,730	\$ 365
2013	1,510	384
2014	None	None
2015	None	None
2016	\$ 711	\$ 489
2017	2,748	3,241

Note: In 2014, the township met the plan's \$1,686 funding requirement through allocation of \$1,686 in terminated employee forfeitures.

Note: In 2015, the township met the plan's \$2,944 funding requirement through allocation of \$2,944 in terminated employee forfeitures.

Note: In 2016, the township met the plan's \$3,110 funding requirement through the deposit of \$711 in state aid, \$489 in employer contributions and \$1,910 in terminated employee forfeitures.

ELK 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

**Ms. Kelly VanCise**  
Chairman, Board of Township Supervisors

**Ms. Sherry M. Moore**  
Secretary

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

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