

# LIMITED PROCEDURES ENGAGEMENT

---

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

---

April 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  
Howe Township  
Forest County  
Sheffield, PA 16347

We conducted a Limited Procedures Engagement (LPE) of the Howe 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 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 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Howe 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 Howe 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 25, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Receipt Of State Aid In Excess Of Entitlement.....	1
Supplementary Information .....	3
Summary of Deposited State Aid and Employer Contributions.....	6
Report Distribution List .....	7

HOWE 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 2018 due to the failure to apply a terminated member’s forfeiture, as illustrated below:

State aid allocation	\$ 3,595
Forfeiture available	686
Actual municipal pension costs	<u>(3,144)</u>
Excess state aid	<u>\$ 1,137</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 failed to establish adequate internal control procedures to reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual pension costs.

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 2018 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$1,137 of excess state aid received in the year 2018 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.

HOWE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation any available employee forfeitures with the plan's annual 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.

HOWE 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	\$ 6,329	\$ 6,644
Interest	12,275	16,266
Difference between expected and actual experience	-	(5,145)
Changes of assumptions	-	1,460
Benefit payments, including refunds of member contributions	-	(108)
Net Change in Total Pension Liability	<u>18,604</u>	<u>19,117</u>
Total Pension Liability – Beginning	220,803	239,407
Total Pension Liability – Ending (a)	<u>\$ 239,407</u>	<u>\$ 258,524</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 6,409	\$ 6,644
Contributions – PMRS assessment		80
PMRS investment income	12,272	16,262
Market value investment income	(751)	(21,199)
Benefit payments, including refunds of member contributions		(108)
PMRS administrative expense	(80)	(80)
Additional administrative expense	(471)	(678)
Net Change in Plan Fiduciary Net Position	<u>17,379</u>	<u>921</u>
Plan Fiduciary Net Position – Beginning	218,610	235,989
Plan Fiduciary Net Position – Ending (b)	<u>\$ 235,989</u>	<u>\$ 236,910</u>
Net Pension Liability – Ending (a-b)	<u>\$ 3,418</u>	<u>\$ 21,614</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.57%	91.64%
Estimated Covered Employee Payroll	\$ 100,426	\$ 130,655
Net Pension Liability as a Percentage of Covered Employee Payroll	3.40%	16.54%

\* The 2015 employer contribution includes \$331 of demutualization compensation and excludes \$80 administrative expense.

HOWE 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	\$ 4,014	\$ 19,954
Interest	12,943	11,843
Difference between expected and actual experience	978	-
Changes of assumptions	2,916	-
Transfers	3,605	-
Benefit payments, including refunds of member contributions	(54,522)	(14,434)
Net Change in Total Pension Liability	<u>(30,066)</u>	<u>17,363</u>
Total Pension Liability – Beginning	<u>258,524</u>	<u>228,458</u>
Total Pension Liability – Ending (a)	<u>\$ 228,458</u>	<u>\$ 245,821</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 4,629	\$ 3,710
Contributions – PMRS assessment	100	100
Contributions – employee	-	15,627
PMRS investment income	12,742	11,576
Market value investment income	8,065	26,327
Transfers	3,605	-
Benefit payments, including refunds of member contributions	(54,522)	(14,434)
PMRS administrative expense	(80)	(80)
Additional administrative expense	(624)	(532)
Net Change in Plan Fiduciary Net Position	<u>(26,085)</u>	<u>42,294</u>
Plan Fiduciary Net Position – Beginning	<u>236,910</u>	<u>210,825</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 210,825</u>	<u>\$ 253,119</u>
Net Pension Liability – Ending (a-b)	<u>\$ 17,633</u>	<u>\$ (7,298)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.28%	102.97%
Estimated Covered Employee Payroll	\$ 66,092	\$ 71,306
Net Pension Liability as a Percentage of Covered Employee Payroll	26.68%	(10.23%)

\* The 2016 employer contribution includes \$48 demutualization compensation, \$615 deposit to municipal reserve and excludes \$100 administrative expense. The 2017 employer contribution includes \$48 demutualization compensation and excludes \$615 municipal reserve deposit and \$100 administrative expense.



HOWE 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	\$ 51,299	\$ 3,418	\$ (44,464)
Net Pension Liability – 12/31/15	\$ 60,628	\$ 21,614	\$ (16,247)

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	\$ 45,036	\$ 17,633	\$ (8,178)
Net Pension Liability – 12/31/17	\$ 24,331	\$ (7,298)	\$ (37,401)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 5,464	\$ 81
2013	5,465	645
2014	5,608	801
2015	6,026	367
2016	4,044	22
2017	2,923	1,455

HOWE 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. Robert A. Summers**  
Chairman, Board of Township Supervisors

**Ms. Beverly Pollock**  
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).