

# LIMITED PROCEDURES ENGAGEMENT

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

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November 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

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We conducted a Limited Procedures Engagement (LPE) of the Lehman 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 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, 2013 to December 31, 2018, 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, 2013 to December 31, 2018, 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 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 Lehman 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 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In An 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 Lehman 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.

October 30, 2019



EUGENE A. DEPASQUALE  
Auditor General

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LEHMAN TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Lehman Township has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

Municipal officials reimbursed \$3,052 to the Commonwealth for the overpayment of state aid received in 2014; however, plan officials again failed to reconcile the amount of state aid received with the pension plan's defined contribution pension costs during the current period, as further discussed in the Finding and Recommendation section of this report.

LEHMAN TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in 2014. However, plan officials again failed to reconcile the amount of state aid received with the pension plan’s defined contribution pension costs in 2016 and 2017, as illustrated below:

	<u>2016</u>	<u>2017</u>
Municipal pension costs	\$ 52,473	\$ 45,550
Less: Forfeitures available	10,229	-
Adjusted municipal pension costs	\$ 42,244	\$ 45,550
State aid allocation	49,615	51,476
Excess state aid	\$ 7,371	\$ 5,926

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 implement adequate internal control procedures to reconcile the township’s state aid allocation, along with available forfeitures with the plan’s actual defined contribution pension costs and ensure 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 years 2016 and 2017 must be returned to the Commonwealth for redistribution.

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

LEHMAN TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the municipality return the \$13,297 of excess state aid received in the years 2016 and 2017 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 again recommend that, in the future, plan officials reconcile the township's annual state aid allocation along with any available employee forfeitures, with the plan's annual defined contribution 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: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next engagement of the plan.

LEHMAN TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the township in the amount of \$13,297, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

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

The supplementary information contained on Pages 5 and 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, 2015, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 102,403	\$ 98,565	\$ 106,207	\$ 91,771
Interest	124,988	114,167	130,062	128,613
Transfers	(283,306)	-	-	-
Difference between expected and actual experience	1,570	39,747	(3,900)	-
Changes of assumptions	-	6,979	18,081	-
Benefit payments, including refunds of member contributions	(114,990)	(52,733)	(63,101)	(81,532)
Net Change in Total Pension Liability	(169,335)	206,725	187,349	138,852
Total Pension Liability – Beginning	2,233,403	2,064,068	2,270,793	2,458,142
Total Pension Liability – Ending (a)	<u>\$ 2,064,068</u>	<u>\$ 2,270,793</u>	<u>\$ 2,458,142</u>	<u>\$ 2,596,994</u>
Plan Fiduciary Net Position				
Contributions – employer *	\$ 50,647	\$ 50,252	\$ 42,244	\$ 45,550
Contributions – member	51,629	48,305	54,154	46,621
Net investment income	116,207	28,180	176,715	407,644
Benefit payments, including refunds of member contributions	(114,990)	(52,733)	(63,101)	(81,532)
Administrative expense	(5,227)	(5,196)	(6,785)	(6,237)
Transfers	(283,306)	-	-	-
Net Change in Plan Fiduciary Net Position	(185,040)	68,808	203,227	412,046
Plan Fiduciary Net Position – Beginning	2,210,059	2,025,019	2,093,827	2,297,054
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,025,019</u>	<u>\$ 2,093,827</u>	<u>\$ 2,297,054</u>	<u>\$ 2,709,100</u>
Net Pension Liability – Ending (a-b)	<u>\$ 39,049</u>	<u>\$ 176,966</u>	<u>\$ 161,088</u>	<u>\$ (112,106)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.11%	92.21%	93.45%	104.32%
Estimated Covered Employee Payroll	\$ 586,565	\$ 628,215	\$ 650,661	\$ 564,369
Net Pension Liability as a Percentage of Covered Employee Payroll	6.66%	28.17%	24.76%	(19.86%)

\* Employer contributions do not include transfers from the municipal reserve in the amounts of \$547, \$448 during 2014 and 2015, respectively, or the excess state aid amounts received in 2016 and 2017 referred to in the finding in this report.

LEHMAN 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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability – 12/31/14	\$ 392,207	\$ 39,049	\$ (309,275)
Net Pension Liability – 12/31/15	\$ 567,626	\$ 176,966	\$ (208,984)

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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 551,204	\$ 161,088	\$ (218,309)
Net Pension Liability – 12/31/17	\$ 309,844	\$ (112,106)	\$ (523,765)

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

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 50,497	\$ 4,436
2014	51,194	None
2015	47,600	3,100
2016	49,615	None
2017	51,476	None
2018	45,150	816

Note: In 2016, the township met the plan's \$52,473 funding requirement through the deposit of \$49,615 in state aid and allocation of \$10,229 in terminated employee forfeitures (*see finding*).

LEHMAN 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 H. Rohner, Jr.**  
Chairman, Board of Township Supervisors

**Mr. Richard Vollmer**  
Vice Chairman, Board of Township Supervisors

**Ms. Charity Rosenberry**  
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).