

LIMITED PROCEDURES ENGAGEMENT

Lowhill Township Non-Uniformed Employees' Pension Plan

Lehigh County, Pennsylvania
For the Period
January 1, 2013 to December 31, 2016

November 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Lowhill Township
Lehigh County
New Tripoli, PA 18066

We conducted a Limited Procedures Engagement (LPE) of the Lowhill Township Non-Uniformed Employees' Pension Plan for the period January 1, 2013 to December 31, 2016 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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 Lowhill Township Non-Uniformed Employees' 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 Audit Recommendation –
Receipt Of State Aid In Excess Of Entitlement

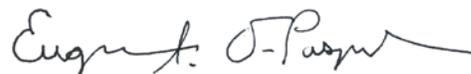
Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An
Underpayment Of State Aid

The finding contained in this LPE repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

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 Lowhill 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 14, 2017



EUGENE A. DEPASQUALE
Auditor General

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LOWHILL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

· Receipt Of State Aid In Excess Of Entitlement

Municipal officials reimbursed \$11,345 to the Commonwealth for the overpayment of state aid received in 2011 and 2012; however, plan officials failed to reconcile the amount of state aid received with the plan's actual pension costs in 2015, as further discussed in the Findings and Recommendations section of this report.

LOWHILL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in the prior audit report, the township received state aid in excess of the plan's pension costs in the years 2011 and 2012. During the current engagement period, the township reimbursed \$11,345 to the Commonwealth for the overpayment of state aid received in 2011 and 2012; however, the township received state aid in excess of the non-uniformed pension plan's pension costs in the year 2015, as illustrated below:

State aid allocation	\$ 15,683
Actual municipal pension costs	(12,924)
Administrative expenses	<u>(2,625)</u>
Excess state aid	<u><u>\$ 134</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 failed to establish adequate internal control procedures to reconcile the township's state aid allocation 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 received in one year to offset pension costs in other years. Consequently, the overpayment of state aid received in the year 2015 must be returned to the Commonwealth for redistribution.

LOWHILL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Continued)

Recommendation: We recommend that the municipality reimburse the \$134 of excess state aid received in the year 2015 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 and municipal contributions made to the pension plan 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: Compliance will be evaluated during our next engagement.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township understated payroll by \$4,870 on the Certification Form AG 385 filed in 2014. Furthermore, the township understated payroll by \$2,317 on the Certification Form AG 385 filed in 2017. 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.

LOWHILL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township's state aid allocations were based on pension costs, the township received a total underpayment of state aid in the amount of \$575 as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2014	8.0%	\$ (4,870)	\$ 390
2017	8.0%	(2,317)	<u>185</u>
		Total	<u>\$ 575</u>

Although the township will be reimbursed for the underpayment of state aid due to the township's certification errors, the full amount of the 2014 and 2017 state aid allocations were not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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: Compliance will be evaluated during our next engagement.

LOWHILL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 11,309	None
2012	13,939	None
2013	19,022	None
2014	16,282	\$ 174
2015	15,683	None
2016	12,924	None

LOWHILL TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Richard B. Hughes
Chairman, Board of Township Supervisors

Ms. Robb Werley
Township Supervisor

Ms. Jill Seymour
Township Secretary

This report is a matter of public record and is available online at 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.