

LIMITED PROCEDURES ENGAGEMENT

Paradise Township Non-Uniformed Pension Plan Monroe County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

October 2018



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
Paradise Township
Monroe County
Cresco, PA 18326

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

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Paradise 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 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 Paradise 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.



EUGENE A. DEPASQUALE
Auditor General

October 5, 2018

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PARADISE TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Paradise Township has partially 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 \$13,162 to the Commonwealth for the overpayment of state aid in 2011; however, plan officials failed to reconcile the amount of state aid received by the township and any available employee forfeitures with the plan's pension costs for full-time plan members in 2016, as further discussed in the Finding and Recommendation section of this report.

PARADISE 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 prior audit report, the township received state aid in excess of the plan's pension costs in 2011. During the current engagement period, municipal officials reimbursed \$13,562 to the Commonwealth for the overpayment of state aid in 2011; however, plan officials failed to reconcile the amount of state aid received by the township and any available employee forfeitures with the plan's pension costs for full-time plan members in 2016, as illustrated below:

Actual municipal pension costs for full time plan members	\$ 38,251
Forfeitures applied	<u>(4,169)</u>
Adjusted actual municipal pension costs for full time plan members	<u>\$ 34,082</u>
State aid allocation	\$ 34,997
Adjusted actual municipal pension costs for full time plan members	<u>(34,082)</u>
Excess state aid	<u>\$ 915</u>

The excess state aid remains in the township's general fund.

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 plan 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.

PARADISE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

In addition, Section 13 of the pension plan agreement with PMRS states:

In the event a member's service with the township is terminated for any reason whatsoever before the funds set aside for such member is vested, then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due from the township for the other members under this plan.

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 attributable to full-time plan members.

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 2016 must be returned to the Commonwealth for redistribution.

PARADISE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality reimburse the \$915 of excess state aid received in the year 2016 to the Commonwealth from the township's general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Liquor Control Audits, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that in the future, plan officials reconcile the township's annual state aid allocation and municipal contributions made to the pension plan and 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: Compliance will be monitored subsequent to the release of the report and through our next engagement.

PARADISE 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, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 79,171	\$ 80,998	\$ 74,148
Interest	74,712	86,046	79,797
Difference between expected and actual experience	52,289	2,030	12,125
Changes of assumptions	-	3,277	22,790
Benefit payments, including refunds of member contributions	(26,135)	(28,534)	(75,656)
Net Change in Total Pension Liability	180,037	143,817	113,204
Total Pension Liability - Beginning	1,368,884	1,548,921	1,692,738
Total Pension Liability - Ending (a)	<u>\$ 1,548,921</u>	<u>\$ 1,692,738</u>	<u>\$ 1,805,942</u>
Plan Fiduciary Net Position			
Contributions - employer*	\$ * 51,570	\$ 50,569	\$** 42,835
Contributions - PMRS assessment	-	260	**340
Contributions - employee	27,091	30,429	27,144
PMRS investment income	74,913	86,026	79,590
Market value investment income	42,899	(92,891)	42,076
Benefit payments, including refunds of member contributions	(26,135)	(28,534)	(75,656)
PMRS administrative expense	(280)	(280)	(280)
Additional administrative expense	(2,873)	(3,586)	(3,899)
Net Change in Plan Fiduciary Net Position	167,185	41,993	112,150
Plan Fiduciary Net Position - Beginning	1,352,030	1,519,215	1,561,208
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,519,215</u>	<u>\$ 1,561,208</u>	<u>\$ 1,673,358</u>
Net Pension Liability - Ending (a-b)	<u>\$ 29,706</u>	<u>\$ 131,530</u>	<u>\$ 132,584</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.08%	92.23%	92.66%
Estimated Covered Employee Payroll	\$ 497,360	\$ 505,693	\$ 470,037
Net Pension Liability as a Percentage of Covered Employee Payroll	5.97%	26.01%	28.21%

* 2014 employer contributions include \$280 administrative expense and exclude transfers of \$790 from municipal reserve for municipal for members.

PARADISE 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	\$ 304,704	\$ 29,706	\$ (239,001)
Net Pension Liability - 12/31/15	\$ 435,096	\$ 131,530	\$ (165,953)

The following presents the net pension liability of the township as of December 31, 2016, 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	\$ 397,480	\$ 132,584	\$ (116,812)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 32,185	\$ 12,205
2013	38,844	11,384
2014	38,727	13,353
2015	27,446	23,123
2016	34,082	8,752
2017	36,456	16,161

Note: In 2016, the township met the plan's \$47,004 funding requirement through the deposit of \$34,082 in state aid, \$4,169 in terminated employee forfeitures, and \$8,752 in employer contributions. The \$915 of excess state aid cited in the Finding remains in the township's general fund.

PARADISE 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. Gary Konrath
Chairman, Board of Township Supervisors

Ms. Reda Briglia
Secretary/Treasurer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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.