

LIMITED PROCEDURES ENGAGEMENT

Plumcreek Township Non-Uniformed Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

December 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
Plumcreek Township
Armstrong County
Shelocta, PA 15774

We conducted a Limited Procedures Engagement (LPE) of the Plumcreek Township Non-Uniformed Pension Plan for the period January 1, 2016 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 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.
- 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.
- 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 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 Plumcreek 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 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

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 Plumcreek 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 27, 2019



EUGENE A. DEPASQUALE
Auditor General

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PLUMCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

Condition: As disclosed as a verbal observation during the prior engagement, municipal officials failed to adopt the mandatory provisions of Act 205 regarding professional services contracts.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

PLUMCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205.

Effect: The township's failure to comply with the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the township's pension plan results in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the investment and advisory services contract for the township's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions while maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan, including authorizations/approvals of township officials in the official minutes of formal board meetings and especially the required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of such professional services contracts.

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

Auditor Conclusion: Compliance will be evaluated during our next engagement of the plan.

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

The supplementary information contained on Pages 3 through 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost (beginning of year)	\$ 9,274	\$ 6,339
Interest (includes interest on service cost)	22,016	22,275
Difference between expected and actual experience	(369)	-
Change of assumptions	-	3,845
Benefit payments, including refunds of member contributions	<u>(23,282)</u>	<u>(23,282)</u>
Net Change in Total Pension Liability	7,639	9,177
Total Pension Liability – Beginning	<u>402,506</u>	<u>410,145</u>
Total Pension Liability – Ending (a)	<u>\$ 410,145</u>	<u>\$ 419,322</u>
Plan Fiduciary Net Position		
Contributions – employer *	\$ 13,470	\$ 12,186
Contributions – PMRS assessment	-	140
Contributions – employee	2,225	2,286
PMRS investment income	18,796	19,518
Market value investment income	1,009	(17,585)
Benefit payments, including refunds of member contributions	(23,282)	(23,282)
PMRS administrative expense	(160)	(140)
Additional administrative expense	<u>(721)</u>	<u>(814)</u>
Net Change in Plan Fiduciary Net Position	11,337	(7,691)
Plan Fiduciary Net Position – Beginning	<u>346,681</u>	<u>358,018</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 358,018</u>	<u>\$ 350,327</u>
Net Pension Liability – Ending (a-b)	<u>\$ 52,127</u>	<u>\$ 68,995</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.29%	83.55%
Estimated Covered Employee Payroll	\$ 106,582	\$ 76,206
Net Pension Liability as a Percentage of Covered Employee Payroll	48.91%	90.54%

* Does not include administrative expense.

PLUMCREEK 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 (beginning of year)	\$ 7,682	\$ 15,134
Interest (includes interest on service cost)	22,854	26,067
Change of benefit terms	53,581	-
Difference between expected and actual experience	5,460	-
Change of assumptions	8,440	-
Benefit payments, including refunds of member contributions	<u>(23,282)</u>	<u>(23,282)</u>
Net Change in Total Pension Liability	74,735	17,919
Total Pension Liability – Beginning	419,322	494,057
Total Pension Liability – Ending (a)	<u>\$ 494,057</u>	<u>\$ 511,976</u>
 Plan Fiduciary Net Position		
Contributions – employer *	\$ 12,296	\$ 12,794
Contributions – PMRS assessment	160	160
Contributions – Employee	2,813	5,745
PMRS investment income	20,309	20,301
Market value investment income	12,531	45,759
Benefit payments, including refunds of member contributions	(23,282)	(23,282)
PMRS administrative expense	(140)	(160)
Additional administrative expense	<u>(995)</u>	<u>(934)</u>
Net Change in Plan Fiduciary Net Position	23,692	60,383
Plan Fiduciary Net Position – Beginning	350,327	374,019
Plan Fiduciary Net Position – Ending (b)	<u>\$ 374,019</u>	<u>\$ 434,402</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 120,038</u>	<u>\$ 77,574</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.70%	84.85%
 Estimated Covered Employee Payroll	\$ 93,784	\$ 114,079
 Net Pension Liability as a Percentage of Covered Employee Payroll	127.99%	68.00%

* Does not include administrative expense.

PLUMCREEK 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	\$ 86,541	\$ 52,127	\$ 21,874
Net Pension Liability – 12/31/15	\$ 103,845	\$ 68,995	\$ 38,427

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	\$ 162,839	\$ 120,038	\$ 82,335
Net Pension Liability – 12/31/17	\$ 121,927	\$ 77,574	\$ 38,504

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

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 12,182	\$ 13,470	\$ (1,288)	\$ 106,582	12.64%
2015	12,326	12,326	-	76,206	16.17%
2016	12,436	12,456	(20)	93,784	13.28%
2017	12,918	12,954	(36)	114,079	11.36%
2018	13,952	18,738	(4,786)	*	%

* Beginning in 2015, amount is actual payroll. In 2014, amount is expected payroll based on the most recent actuarial valuation. In addition, due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.

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

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2013, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 343,457	\$ 397,746	\$ 54,289	86.4%
01-01-15	368,135	410,145	42,010	89.8%
01-01-17	404,190	494,057	89,867	81.8%

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

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

PLUMCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	7 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

PLUMCREEK TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Mr. Robert Dale Rearick
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