

LIMITED PROCEDURES ENGAGEMENT

South Hanover Township Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

January 2019



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
South Hanover Township
Dauphin County
Hershey, PA 17033

We conducted a Limited Procedures Engagement (LPE) of the South Hanover 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 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, 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 South Hanover 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 South Hanover 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.

January 8, 2019



EUGENE A. DEPASQUALE
Auditor General

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SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify an eligible employee and understated payroll by \$39,686 on the Certification Form AG 385 filed in 2016. In addition, the township understated payroll by \$10,907 on the Certification Form AG 385 filed in 2018. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocations were based on pension costs, the township received an underpayment of state aid as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2016	7.50%	\$ 39,686	\$ 2,977
2018	7.50%	10,907	818
		Total	<u><u>\$ 3,795</u></u>

Although the township will be reimbursed for the total underpayment of state aid due to the township’s certification errors, the full amount of the 2016 and 2018 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 the next plan engagement.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 through 4 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	\$ 25,917	\$ 29,917
Interest	6,477	8,324
Difference between expected and actual experience	(2,432)	1
Benefit payments, including refunds of member contributions	(9,163)	-
Net Change in Total Pension Liability	<u>20,799</u>	<u>38,242</u>
Total Pension Liability – Beginning	<u>119,619</u>	<u>140,418</u>
Total Pension Liability – Ending (a)	<u><u>\$ 140,418</u></u>	<u><u>\$ 178,660</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 18,330	\$ 23,022
Contributions – PMRS assessment	-	160
Contributions – member	5,427	6,745
Net investment income	5,930	(2,076)
Benefit payments, including refunds of member contributions	(9,163)	-
Administrative expense	(394)	(511)
Net Change in Plan Fiduciary Net Position	<u>20,130</u>	<u>27,340</u>
Plan Fiduciary Net Position – Beginning	<u>118,437</u>	<u>138,567</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 138,567</u></u>	<u><u>\$ 165,907</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,851</u></u>	<u><u>\$ 12,753</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.68%	92.86%
Estimated Covered Employee Payroll	\$ 273,200	\$ 308,968
Net Pension Liability as a Percentage of Covered Employee Payroll	0.68%	4.13%

* 2015 employer contributions do not include a \$151 transfer from municipal reserve account.

SOUTH HANOVER 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	\$ 33,992	\$ 37,389
Interest	10,549	12,466
Difference between expected and actual experience	1	-
Benefit payments, including refunds of member contributions	-	-
Net Change in Total Pension Liability	<u>44,542</u>	<u>49,855</u>
Total Pension Liability – Beginning	<u>178,660</u>	<u>223,202</u>
Total Pension Liability – Ending (a)	<u>\$ 223,202</u>	<u>\$ 273,057</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 26,713	\$ 24,541
Contributions – PMRS assessment	140	160
Contributions – member	7,280	12,847
Net investment income	12,873	40,321
Benefit payments, including refunds of member contributions	-	-
Administrative expense	(661)	(738)
Net Change in Plan Fiduciary Net Position	<u>46,345</u>	<u>77,131</u>
Plan Fiduciary Net Position – Beginning	<u>165,907</u>	<u>212,252</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 212,252</u>	<u>\$ 289,383</u>
Net Pension Liability – Ending (a-b)	<u>\$ 10,950</u>	<u>\$ (16,326)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.09%	105.98%
Estimated Covered Employee Payroll	\$ 356,171	\$ 327,205
Net Pension Liability as a Percentage of Covered Employee Payroll	3.07%	(4.99%)

SOUTH HANOVER 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:

	<u>1% Decrease (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/14	\$ 29,935	\$ 1,851	\$ (26,232)
Net Pension Liability – 12/31/15	\$ 48,485	\$ 12,753	\$ (22,979)

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	\$ 55,590	\$ 10,950	\$ (33,691)
Net Pension Liability – 12/31/17	\$ 38,285	\$ (16,326)	\$ (70,938)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 15,482	\$ 1,990
2013	20,910	456
2014	17,960	370
2015	19,604	3,569
2016	23,198	3,514
2017	24,308	233

Note: In 2012, the township met the plan's \$21,081 funding requirement through the deposit of \$15,482 in state aid and \$1,990 in employer contributions and the allocation of \$3,609 in terminated employee forfeitures. In 2014, the township met the plan's \$20,630 funding requirement through the deposit of \$17,960 in state aid and \$370 in employer contributions and the allocation of \$2,300 in terminated employee forfeitures.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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