

LIMITED PROCEDURES ENGAGEMENT

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

March 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
Conewago Township
Dauphin County
Elizabethtown, PA 17022

We conducted a Limited Procedures Engagement (LPE) of the Conewago 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 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, 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.
- We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations.

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

February 25, 2019



EUGENE A. DEPASQUALE
Auditor General

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CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs attributable to full-time plan members in the years 2017 and 2018, as illustrated below:

	<u>2017</u>	<u>2018</u>
Municipal pension costs for full-time plan members	\$ 3,799	\$ 3,393
Forfeitures available	(4,670)	(610)
Adjusted municipal pension costs (full-time plan members)	-	2,783
State aid allocation	4,439	3,117
Excess state aid	\$ 4,439	\$ 334

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.

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.

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials failed to reconcile the township’s state aid allocations and forfeitures available to reduce municipal contributions with the plan’s annual defined contribution 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 in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2017 and 2018, in the amount of \$4,773 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.

Recommendation: We recommend that the municipality return the \$4,773 of excess state aid received in the years 2017 and 2018 to the Commonwealth. 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.

In addition, 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 plan 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: Due to the potential withhold of state aid, the township’s compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the plan.

CONEWAGO 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 \$4,773, 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.

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

The supplementary information contained on Pages 4 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	\$ 15,105	\$ 16,162
Interest	7,536	8,747
Difference between expected and actual experience	304	325
Changes of assumptions	-	264
Benefit payments, including refunds of member contributions	(1,424)	(1,424)
Net Change in Total Pension Liability	<u>21,521</u>	<u>24,074</u>
Total Pension Liability – Beginning	<u>132,161</u>	<u>153,682</u>
Total Pension Liability – Ending (a)	<u><u>\$ 153,682</u></u>	<u><u>\$ 177,756</u></u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 4,821	\$ 5,064
Contributions – PMRS assessment	-	120
Contributions – employee	10,429	11,122
PMRS investment income	7,499	8,700
Market value investment income	(305)	(9,708)
Benefit payments, including refunds of member contributions	(1,424)	(1,424)
PMRS Administrative expense	(120)	(120)
Additional administrative expense	(288)	(363)
Net Change in Plan Fiduciary Net Position	<u>20,612</u>	<u>13,391</u>
Plan Fiduciary Net Position – Beginning	<u>130,599</u>	<u>151,211</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 151,211</u></u>	<u><u>\$ 164,602</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 2,471</u></u>	<u><u>\$ 13,154</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.39%	92.60%
Estimated Covered Employee Payroll	\$ 155,866	\$ 167,994
Net Pension Liability as a Percentage of Covered Employee Payroll	1.59%	7.83%

* 2014 employer contributions include \$25 interest deposited into the Municipal Reserve Account.
2015 employer contributions include \$24 interest deposited into the Municipal Reserve Account.

CONEWAGO 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	\$ 16,359	\$ 13,434
Interest	10,102	9,838
Difference between expected and actual experience	(40)	(5,465)
Changes of assumptions	187	-
Benefit payments, including refunds of member contributions	(1,068)	(17,042)
Net Change in Total Pension Liability	<u>25,540</u>	<u>765</u>
Total Pension Liability – Beginning	177,756	203,296
Total Pension Liability – Ending (a)	<u>\$ 203,296</u>	<u>\$ 204,061</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 5,159	\$ 3,717
Contributions – PMRS assessment	120	120
Contributions – employee	11,199	8,353
PMRS investment income	10,040	9,955
Market value investment income	3,110	22,626
Benefit payments, including refunds of member contributions	(1,068)	(17,042)
PMRS Administrative expense	(120)	(120)
Additional administrative expense	(492)	(458)
Net Change in Plan Fiduciary Net Position	<u>27,948</u>	<u>27,151</u>
Plan Fiduciary Net Position – Beginning	164,602	192,550
Plan Fiduciary Net Position – Ending (b)	<u>\$ 192,550</u>	<u>\$ 219,701</u>
Net Pension Liability – Ending (a-b)	<u>\$ 10,746</u>	<u>\$ (15,640)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.71%	107.66%
Estimated Covered Employee Payroll	\$ 173,120	\$ 171,068
Net Pension Liability as a Percentage of Covered Employee Payroll	6.21%	(9.14%)

* 2017 employer contributions exclude \$1,364 transferred from the Municipal Reserve Account to Member's Accounts.

CONEWAGO 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	\$ 31,532	\$ 2,471	\$ (26,497)
Net Pension Liability – 12/31/15	\$ 47,038	\$ 13,154	\$ (20,639)

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	\$ 49,752	\$ 10,746	\$ (28,177)
Net Pension Liability – 12/31/17	\$ 23,679	\$ (15,640)	\$ (54,883)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 2,378	\$ 419
2013	2,391	996
2014	3,307	1,489
2015	3,852	1,308
2016	4,112	1,167
2017	4,439	762

Note: In 2017, the township met the plan's \$5,195 funding requirement through the allocation of \$4,670 in terminated employee forfeitures and \$762 in employer contributions (for non-full-time employees). The \$4,439 in state aid was not needed as disclosed in the Finding and Recommendation section of this report.

CONEWAGO 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

Ms. Mimi Legro
Chairwoman, Board of Township Supervisors

Ms. Jamie Gambino
Township Secretary

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.