

# LIMITED PROCEDURES ENGAGEMENT

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## Glade Township Non-Uniformed Pension Plan Warren County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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February 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

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We conducted a Limited Procedures Engagement (LPE) of the Glade Township Non-Uniformed Pension Plan for the period January 1, 2015 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 LPE 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 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, 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 Glade 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 Glade 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 5, 2019



EUGENE A. DEPASQUALE  
Auditor General

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GLADE TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

Glade Township has complied with the prior LPE report recommendation concerning the following:

- Untimely Deposit Of State Aid

During the current engagement period, municipal officials deposited \$217 of interest earnings to the pension plan for the late deposit of state aid in 2013 and 2014.

GLADE 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 annual pension costs in the years 2016 and 2017, as illustrated below:

	<u>2016</u>	<u>2017</u>
Actual municipal pension costs	\$ 11,970	\$ 13,388
Forfeitures available	<u>(19,582)</u>	<u>(7,612)</u>
Adjusted actual municipal pension costs	-	5,776
State aid allocated	<u>(13,217)</u>	<u>(10,720)</u>
Excess state aid	<u>\$ 13,217</u>	<u>\$ 4,944</u>

In October 2018, municipal officials reimbursed \$13,248 of the excess state aid to the Commonwealth leaving a balance of \$4,913 that still needs to be returned.

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 and employee forfeitures available to reduce municipal contributions with the plan’s actual annual 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 in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2016 and 2017 must be returned to the Commonwealth for redistribution.

GLADE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the municipality return the remaining excess state aid received in the years 2016 and 2017, in the amount of \$4,913, 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.

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation 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: The township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next plan engagement.

GLADE 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	\$ 25,717	\$ 29,249
Interest	34,444	40,435
Difference between expected and actual experience	817	(2,681)
Changes of assumptions	-	1,537
Benefit payments, including refunds of member contributions	(3,559)	(10,182)
Net Change in Total Pension Liability	<u>57,419</u>	<u>58,358</u>
Total Pension Liability – Beginning	618,783	676,202
Total Pension Liability – Ending (a)	<u>\$ 676,202</u>	<u>\$ 734,560</u>
 Plan Fiduciary Net Position		
Contributions – employer*	\$ 13,172	\$ 13,226
Contributions – PMRS assessment	-	140
Contributions – employee	12,685	16,032
PMRS investment income	33,894	40,169
Market value investment income	(1,423)	(46,925)
Benefit payments, including refunds of member contributions	(3,559)	(10,182)
PMRS administrative expense	(140)	-
Additional administrative expense	(1,300)	(1,675)
Net Change in Plan Fiduciary Net Position	<u>53,329</u>	<u>10,785</u>
Plan Fiduciary Net Position – Beginning	612,083	665,412
Plan Fiduciary Net Position – Ending (b)	<u>\$ 665,412</u>	<u>\$ 676,197</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 10,790</u>	<u>\$ 58,363</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.40%	92.05%
 Covered Employee Payroll	\$ 217,203	\$ 220,275
 Net Pension Liability as a Percentage of Covered Employee Payroll	4.97%	26.50%

\* The 2015 employer contribution does not include \$140 administrative expense and includes \$9 of earnings from municipal reserve.



GLADE 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	\$ 28,850	\$ 34,826
Interest	39,655	40,619
Difference between expected and actual experience	(18,809)	-
Changes of assumptions	4,099	-
Benefit payments, including refunds of member contributions	(22,378)	(11,903)
Net Change in Total Pension Liability	<u>31,417</u>	<u>63,542</u>
Total Pension Liability – Beginning	734,560	765,977
Total Pension Liability – Ending (a)	<u><u>\$ 765,977</u></u>	<u><u>\$ 829,519</u></u>
 Plan Fiduciary Net Position		
Contributions – employer*	\$ 9,802	\$ 13,248
Contributions – PMRS assessment	20	140
Contributions – employee	17,020	21,578
Net investment income	39,946	41,076
Market value investment income	17,920	90,443
Benefit payments, including refunds of member contributions	(22,378)	(11,903)
PMRS administrative expense	(140)	(140)
Additional administrative expense	(1,957)	(1,889)
Net change in plan fiduciary net position	<u>60,233</u>	<u>152,553</u>
Plan Fiduciary Net Position – Beginning	676,197	736,430
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 736,430</u></u>	<u><u>\$ 888,983</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 29,547</u></u>	<u><u>\$ (59,464)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.14%	107.17%
 Covered Employee Payroll	\$ 197,168	\$ 220,794
 Net Pension Liability as a Percentage of Covered Employee Payroll	14.99%	(26.93%)

\* The 2016 employer contribution consists of terminated employee forfeitures. The 2017 contribution does not include \$140 admin expense.

GLADE 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:

	1% Decrease (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability – 12/31/14	\$ 141,614	\$ 10,790	\$ (119,796)
Net Pension Liability – 12/31/15	\$ 188,171	\$ 58,363	\$ (68,670)

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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 165,499	\$ 29,547	\$ (103,658)
Net Pension Liability – 12/31/17	\$ 89,480	\$ (59,464)	\$ (205,706)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 11,962	\$ 143
2013	11,965	1,434
2014	13,172	None
2015	13,032	325
2016	None	None
2017	10,689	None

Note: In 2016, the township met the plan's \$11,970 funding requirement through the utilization of \$11,970 in terminated employee forfeitures.

Note: In 2017, the township met the plan's \$13,388 funding requirement through the utilization of \$7,612 in terminated employee forfeitures and the deposit of \$10,689 in state aid (see Finding).

GLADE 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. Fred R. Freeman**  
Chairman, Board of Township Supervisors

**Ms. Tiffany Smith**  
Secretary

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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