

# LIMITED PROCEDURES ENGAGEMENT

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## Washington Township Non-Uniformed Cash Balance Pension Plan

Westmoreland County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2017

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January 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

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Washington Township  
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We conducted a Limited Procedures Engagement (LPE) of the Washington Township Non-Uniformed Cash Balance 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 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 Washington Township Non-Uniformed Cash Balance 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 Certified On Actuarial Valuation Reports Resulting In Overpayments 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 Washington 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

December 28, 2018

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WASHINGTON TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data Certified On Actuarial Valuation Reports Resulting In Overpayments Of State Aid**

Condition: Actuarial valuation reports form 203A, with valuation dates of January 1, 2013, January 1, 2015 and January 1, 2017 submitted to the former Public Employee Retirement Commission (PERC), contained incorrect information. The township incorrectly reported that there were no active members who worked less than 35 hours per week; however, the plan had four members who worked less than 35 hours per week. Therefore, incorrect data was used to determine the amount of state aid allocated to the township during the years 2014 through 2018 since municipal officials failed to correctly report that a portion of the payroll reported on line 14 was for part-time employees.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: The discrepancy in the data submitted to the former PERC occurred because plan officials did not properly verify that the information reported was consistent with the plan's actual membership relative to active members who worked less than 35 hours per week.

Effect: Because the municipality's state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in incorrect state aid allocations to the township in the years 2014 through 2018. The normal cost percentages for all of the township's non-uniformed pension plans are factored into a combined non-uniformed normal cost percentage, and the combined non-uniformed pension plans' data is then combined with the police pension plan data, along with certified payroll data, to determine the municipality's annual state allocation. The incorrect normal cost percentages for this plan resulted in the township receiving excess state aid in the total amount of \$20,244, calculated as follows:

WASHINGTON TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Year</u>	<u>State Aid Entitlement</u>	<u>State Aid Received</u>	<u>Excess State Aid</u>
2014	\$ 69,444	\$ 73,755	\$ 4,311
2015	\$ 73,332	\$ 77,698	\$ 4,366
2016	\$ 91,510	\$ 95,089	\$ 3,579
2017	\$ 96,358	\$ 100,043	\$ 3,685
2018	\$ 79,279	\$ 83,582	\$ 4,303

**Recommendation:** We recommend that plan officials contact the Municipal Pension Reporting Program (MPRP) (formerly PERC) to determine if a revised actuarial valuation report may be filed with a valuation date of January 1, 2017. If a revised report is prepared and accepted by MPRP, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

We further recommend that the total excess state aid, in the amount of \$20,244, be returned 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 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. A copy of the interest calculation must be submitted along with evidence of payment.

We also recommend that in the future, plan officials review and verify all information submitted to MPRP so that future actuarial valuation reports properly reflect the status of the pension plan.

**Management’s Response:** Municipal agreed with the results of the engagement and will include interest with repayment based on the interest earned by the township’s general fund.

**Auditor’s Conclusion:** Based on the management response, it appears municipal officials intend to comply with the finding recommendation. 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 audit report and through our next audit of the plan.

WASHINGTON TOWNSHIP NON-UNIFORMED CASH BALANCE 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 \$20,244, 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.

WASHINGTON TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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	\$ 29,410	\$ 30,012	\$ 35,439
Interest	10,573	12,794	14,846
Difference between expected and actual experience	1	-	443
Changes of assumptions	-	-	287
Benefit payments, including refunds of member contributions	-	-	(1,054)
Net Change in Total Pension Liability	<u>39,984</u>	<u>42,806</u>	<u>49,961</u>
Total Pension Liability - Beginning	<u>181,499</u>	<u>221,483</u>	<u>264,289</u>
Total Pension Liability - Ending (a)	<u><u>\$ 221,483</u></u>	<u><u>\$ 264,289</u></u>	<u><u>\$ 314,250</u></u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 18,938	\$ 19,000	\$ 19,500
Contributions - PMRS assessment	-	120	120
Contributions - member	10,458	10,881	15,940
PMRS investment income	10,706	12,940	15,008
Market value investment income	(945)	(15,317)	4,171
Benefit payments, including refunds of member contributions	-	-	(1,054)
PMRS administrative expense	(120)	(120)	(120)
Additional administrative expense	(411)	(539)	(735)
Net Change in Plan Fiduciary Net Position	<u>38,626</u>	<u>26,965</u>	<u>52,830</u>
Plan Fiduciary Net Position - Beginning	<u>179,834</u>	<u>218,460</u>	<u>245,425</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 218,460</u></u>	<u><u>\$ 245,425</u></u>	<u><u>\$ 298,255</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 3,023</u></u>	<u><u>\$ 18,864</u></u>	<u><u>\$ 15,995</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.64%	92.86%	94.91%
Estimated Covered Employee Payroll	\$ 199,049	\$ 201,411	\$ 212,241
Net Pension Liability as a Percentage of Covered Employee Payroll	1.52%	9.37%	7.54%



WASHINGTON TOWNSHIP NON-UNIFORMED CASH BALANCE 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	\$ 47,319	\$ 3,023	\$ (41,274)
Net Pension Liability – 12/31/15	\$ 71,722	\$ 18,864	\$ (33,994)

In addition, 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:

	<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	\$ 77,396	\$ 15,995	\$ (45,236)

WASHINGTON TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 1,574	\$ 4,505
2013	7,999	6,411
2014	7,334	11,618
2015	10,484	8,647
2016	4,136	15,364
2017	16,276	3,405

WASHINGTON TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Richard C. Gardner**  
Chairman, Board of Township Supervisors

**Mr. Joseph D. Olszewski**  
Township Supervisor

**Mr. Richard D. Hill**  
Township Supervisor

**Ms. Lynn A. Stascak**  
Township Secretary/Treasurer

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

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