

# LIMITED PROCEDURES ENGAGEMENT

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## West Pennsboro Township Non-Uniformed Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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February 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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West Pennsboro Township  
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Carlisle, PA 17015

We conducted a Limited Procedures Engagement (LPE) of the West Pennsboro 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 West Pennsboro 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 findings further discussed later in this report:

Finding No. 1 - Incorrect Data On Certification Form AG 385 Resulting In Overpayment Of State Aid

Finding No. 2 - 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 West Pennsboro 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 7, 2019



EUGENE A. DEPASQUALE  
Auditor General

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WEST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In Overpayment Of State Aid**

Condition: The township certified an ineligible non-uniformed employee and overstated payroll by \$21,588 on the Certification Form AG 385 filed in 2016. The data contained on this certification form is based on prior calendar year information.

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

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

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2016	7.0%	\$ 21,588	\$ 1,511

Recommendation: We recommend that the overpayment of state aid, in the amount of \$1,511, plus interest, 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 the check.

We also 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 monitored subsequent to the release of the report and through our next engagement of the pension plan.

WEST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement**

Condition: The township received state aid in excess of the pension plan’s defined contribution pension costs in the years 2015 and 2017, as illustrated below:

	2015	2017
State aid allocation	\$ 25,383	\$ 25,805
Actual municipal pension costs	(25,024)	(25,416)
Excess state aid	\$ 359	\$ 389

*Note: It should be noted that we were unable to determine if the condition existed for 2018 as well, since final W-2 payroll amounts were not known as of completion of our fieldwork procedures (see recommendation below).*

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 annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs. Additionally, it was also noted that it is the practice of the township to fund its pension plan on a quarterly basis from the general fund and then reimburse the general fund upon receipt of the annual allocation of state aid; however, the township does not ensure that the remainder of the annual state aid received which exceeds amounts reimbursable to the general fund are appropriately deposited into the pension plan in accordance with Section 402(g) of Act 205 which states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

WEST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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 2015 and 2017, in the total amount of \$748, must be returned to the Commonwealth for redistribution.

In addition, although it is appropriate for a municipality to reimburse its general fund for annual pension costs paid by the municipality prior to receipt of its annual allocation, when any remaining state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay additional eligible annual pension costs or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality return the \$748 of excess state aid received in the years 2015 and 2017 to the Commonwealth from the township's general fund. 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 plan officials reconcile the amount of state aid and municipal contributions allocated to the pension plan for the year 2018 and subsequent years thereafter, 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: Compliance will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

WEST PENNSBORO 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	\$ 43,342	\$ 43,117
Interest	50,479	55,491
Difference between expected and actual experience	467	433
Changes of assumptions	-	655
Benefit payments, including refunds of member contributions	(3,822)	(3,822)
Net Change in Total Pension Liability	<u>90,466</u>	<u>95,874</u>
Total Pension Liability – Beginning	904,219	994,685
Total Pension Liability – Ending (a)	<u>\$ 994,685</u>	<u>\$ 1,090,559</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ 25,972	\$ 24,805
Contributions – PMRS assessment	-	240
Contributions – member	17,798	18,470
PMRS investment income	50,283	55,288
Market value investment income	(2,864)	(61,053)
Benefit payments, including refunds of member contributions	(3,822)	(3,822)
PMRS administrative expense	(220)	(240)
Additional Administrative expense	(1,928)	(2,305)
Net Change in Plan Fiduciary Net Position	<u>85,219</u>	<u>31,383</u>
Plan Fiduciary Net Position – Beginning	894,380	979,599
Plan Fiduciary Net Position – Ending (b)	<u>\$ 979,599</u>	<u>\$ 1,010,982</u>
Net Pension Liability – Ending (a-b)	<u>\$ 15,086</u>	<u>\$ 79,577</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.48%	92.70%
Estimated Covered Employee Payroll	\$ 364,898	\$ 354,054
Net Pension Liability as a Percentage of Covered Employee Payroll	4.13%	22.48%

\* 2014 Employer Contributions include \$209 interest deposited into the Municipal Reserve account.  
 2015 Employer Contributions include \$157 interest deposited into the Municipal Reserve account.



WEST PENNSBORO 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	\$ 44,774	\$ 46,179
Interest	60,777	63,459
Difference between expected and actual experience	625	-
Changes of assumptions	624	-
Benefit payments, including refunds of member contributions	<u>(3,822)</u>	<u>(3,822)</u>
Net Change in Total Pension Liability	102,978	105,816
Total Pension Liability – Beginning	<u>1,090,559</u>	<u>1,193,537</u>
Total Pension Liability – Ending (a)	<u>\$ 1,193,537</u>	<u>\$ 1,299,353</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 26,105	\$ 25,176
Contributions – PMRS assessment	220	240
Contributions – member	18,669	21,002
PMRS investment income	60,558	63,216
Market value investment income	22,566	138,660
Benefit payments, including refunds of member contributions	(3,822)	(3,822)
PMRS administrative expense	(220)	(240)
Additional Administrative expense	<u>(2,967)</u>	<u>(2,907)</u>
Net Change in Plan Fiduciary Net Position	121,109	241,325
Plan Fiduciary Net Position – Beginning	<u>1,010,982</u>	<u>1,132,091</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,132,091</u>	<u>\$ 1,373,416</u>
Net Pension Liability – Ending (a-b)	<u>\$ 61,446</u>	<u>\$ (74,063)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.85%	105.70%
Estimated Covered Employee Payroll	\$ 370,989	\$ 359,662
Net Pension Liability as a Percentage of Covered Employee Payroll	16.56%	(20.59%)

WEST PENNSBORO 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	\$ 209,263	\$ 15,086	\$ (178,748)
Net Pension Liability - 12/31/15	\$ 292,979	\$ 79,577	\$ (133,498)

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	\$ 295,467	\$ 61,446	\$ (172,266)
Net Pension Liability - 12/31/17	\$ 181,372	\$ (74,063)	\$ (329,207)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 27,496	\$ 1,155
2013	28,265	794
2014	25,763	None
2015	24,888	None
2016	26,325	None
2017	25,416	None

WEST PENNSBORO TOWNSHIP NON-UNIFORMED PENSION PLAN  
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This report was initially distributed to the following:

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Township Secretary

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Pennsylvania Municipal Retirement System

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