

# LIMITED PROCEDURES ENGAGEMENT

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## Black Creek Township Non-Uniformed Pension Plan Luzerne County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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November 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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We conducted a Limited Procedures Engagement (LPE) of the Black Creek 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit 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, 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 Black Creek 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 – Partial Compliance With Prior Audit Recommendation – 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 Black Creek 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.

October 24, 2018



EUGENE A. DEPASQUALE  
Auditor General

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BLACK CREEK TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Black Creek Township has partially complied with the prior audit recommendation concerning the following:

- Receipt of State Aid In Excess Of Entitlement

During the current audit period, the township reimbursed \$19,212 to the Commonwealth for the excess state aid received in the years 2012 and 2013; however, plan officials failed to calculate and pay the required interest due on the reimbursement as further discussed in the Finding and Recommendation section of this report.

BLACK CREEK TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in our Status of Prior Finding section of this report, the township reimbursed the Commonwealth for the excess state aid received in the years 2012 and 2013; however, plan officials failed to calculate and pay the required interest due on the reimbursement. It was previously recommended in the prior audit report that the total excess pension aid be returned to the Commonwealth, with interest compounded annually from the date of receipt to the date of repayment, at a rate earned by the pension plan. However, as of the date of this report, no such interest has been paid on the excess state aid reimbursement.

Criteria: The case of Peyton v. Margiotti, 398 Pa. 86, (1959), states that a person has the right to collect interest of money which is unlawfully withheld from him. When interest is not expressly provided for... it is due... from the date of withholding. Id. at 94.

Cause: Township officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: The township's general fund retained the interest earned on the state aid overpayments instead of including these earnings along with the excess state aid funds surrendered to the Commonwealth for redistribution to other eligible municipal pension plans.

Recommendation: We again recommend that the interest due on the state aid overpayments received in 2012 and 2013, compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, be reimbursed to the Commonwealth. A check 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.

Management's Response: Plan officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

BLACK CREEK TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The supplementary information contained on Pages 3 and 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 6,737	\$ 6,871	\$ 8,563
Interest	21,022	25,084	25,914
Difference between expected and actual experience	284	408	(6,628)
Changes of assumptions	-	1,571	6,913
Benefit payments, including refunds of member contributions	<u>(2,550)</u>	<u>(5,150)</u>	<u>(17,749)</u>
Net Change in Total Pension Liability	25,493	28,784	17,013
Total Pension Liability - Beginning	<u>384,289</u>	<u>409,782</u>	<u>438,566</u>
Total Pension Liability - Ending (a)	<u>\$ 409,782</u>	<u>\$ 438,566</u>	<u>\$ 455,579</u>
Plan Fiduciary Net Position			
Contributions - employer	\$ 6,957	\$ 6,871	\$ 6,744
Contributions - PMRS assessment	-	200	200
Contributions - member	-	-	1,819
Net investment income	19,811	(2,202)	26,648
Benefit payments, including refunds of member contributions	<u>(2,550)</u>	<u>(5,150)</u>	<u>(17,749)</u>
Administrative expense	<u>(1,025)</u>	<u>(1,244)</u>	<u>(1,454)</u>
Net Change in Plan Fiduciary Net Position	23,193	(1,525)	16,208
Plan Fiduciary Net Position - Beginning	<u>380,127</u>	<u>403,320</u>	<u>401,795</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 403,320</u>	<u>\$ 401,795</u>	<u>\$ 418,003</u>
Net Pension Liability - Ending (a-b)	<u>\$ 6,462</u>	<u>\$ 36,771</u>	<u>\$ 37,576</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.42%	91.62%	91.75%
Estimated Covered Employee Payroll	\$ 135,034	\$ 137,424	\$ 134,882
Net Pension Liability as a Percentage of Covered Employee Payroll	4.79%	26.76%	27.86%

BLACK CREEK TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability - 12/31/14	\$ 84,967	\$ 6,462	\$ (71,719)
Net Pension Liability - 12/31/15	\$ 106,314	\$ 36,771	\$ (29,839)

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	\$ 91,425	\$ 37,576	\$ (12,141)



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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 3,839	None
2013	5,029	None
2014	5,850	\$ 1,107
2015	6,871	200
2016	6,892	200
2017	6,744	516

Note: In 2012, the township met the plan's \$12,712 funding requirement through the deposit of \$3,839 in state aid and \$8,873 in terminated employee forfeitures.

BLACK CREEK 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. Bonnie H. Adams**  
Chairperson, Board of Township Supervisors

**Mr. Joseph Lescowitch**  
Vice Chairman, Board of Township Supervisors

**Ms. Saura Rohrbach**  
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