

LIMITED PROCEDURES ENGAGEMENT

East Earl Township Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
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www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
East Earl Township
Lancaster County
East Earl, PA 17519

We conducted a Limited Procedures Engagement (LPE) of the East Earl 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 pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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 East Earl 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 – Failure To Properly Determine A Vested Benefit Due An Eligible Member

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 contents of this report were discussed with officials of East Earl 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.

June 13, 2018

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Failure To Properly Determine A Vested Benefit Due An Eligible Member.....	1
Summary of Deposited State Aid and Employer Contributions.....	3
Report Distribution List	4

EAST EARL TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Determine A Vested Benefit Due An Eligible Member

Condition: Plan officials failed to properly determine a vested benefit due an eligible, terminated plan member in accordance with the provisions of the plan’s governing document. An employee terminated in 2015 after accumulating 2 years of credited service; however, plan officials failed to properly determine the vested portion (20 percent) of the member’s account prior to liquidating the terminated plan member’s account.

Criteria: Section 8 of Article II of the plan’s governing document Ordinance No. 87-96, as amended, states:

A participant shall have a vested interest in the contribution made on his behalf by the Township according to his years of service to the Township in accordance with the following schedule:

<u>Year Of Service</u>	<u>Percent Vested</u>
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6	100%

A Year of Service for vesting purposes is a calendar year in which an employee works at least 1000 hours. All years of employment are included when determining Years of Service for vesting purposes.

In addition, Sections 12 and 13 of Article II of the plan’s governing document state:

Cessation of a participant’s employment by the Township prior to the normal retirement date for a reason other than death or total disability shall terminate the participant’s membership in the plan, subject, however, to the participant’s vested interest. Forfeitures of any amounts contributed by the township shall not act to increase the interest of the remaining participants, but shall be credited towards current or succeeding years’ contributions by the township.

Former employees whose participation in the plan has ceased under Section 12, shall be entitled to receive, upon attaining the age of 59 ½, the total of all Township contributions to the plan, together with all earnings thereon as shown in the participant’s account balance at the time of attaining the age of 59 ½ adjusting to the vesting schedule set forth in Section 8.

EAST EARL TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued):

Cause: Plan officials failed to establish adequate internal control procedures to ensure the proper determination of vested pension benefits due to terminating participants.

Effect: The failure to adequately determine vested pension benefits resulted in a terminated employee not receiving the vested portion of his account balance amounting to \$1,821 to which he is entitled according to the plan document. In addition, the township inadvertently liquidated the terminated member's entire account and returned funds amounting to \$8,461 to the Commonwealth for redistribution to other eligible municipal pension plans instead of crediting towards contributions required by the township during 2015 and 2016 as outlined in the plan document.

Although the township will be reimbursed for the inadvertent return of funds to the Commonwealth, the forfeited funds were not available to be utilized by the township and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

Recommendation: Since the funds from the terminated account were previously liquidated in total, we recommend that plan officials distribute the vested portion of the terminated participant's account balance noted above to the member in accordance with the plan's governing document.

We also recommend municipal officials establish adequate procedures to properly determine future pension benefits, which include reviewing and verifying an employee's vesting service at the date of separation or termination, to ensure that future distributions to eligible plan members, including terminated-vested members and any resulting forfeitures available for crediting towards current or succeeding years' contributions by the township are in accordance with the provisions contained in the plan's governing document.

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

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

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 44,195	\$ 943
2013	38,789	17,668
2014	59,085	3,126
2015	57,147	7,017
2016	59,185	2,322
2017	53,740	17,934

EAST EARL 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. Nelson R. Gross
Chairman, Board of Township Supervisors

Mr. Justin M. Sauder
Vice-Chairman, Board of Township Supervisors

Mr. Daniel L. Fox
Township Supervisor

Mr. Terry L. Kauffman
Interim Township Manager

Ms. Connie Gross
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