

# LIMITED PROCEDURES ENGAGEMENT

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## Limestone Township Non-Uniformed Pension Plan Union County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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January 2020



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 Limestone Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018 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.
- 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.
- 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 Limestone 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 Maintain An Adequate Record-Keeping System

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 Limestone 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.

January 10, 2020

  
EUGENE A. DEPASQUALE  
Auditor General

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LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Maintain An Adequate Record-Keeping System**

Condition: The municipality did not maintain adequate financial records or statements of the non-uniformed pension plan sufficient to effectively monitor the activity in this account. In addition, the pension plan’s record-keeping system did not provide effective control over assets, revenues and expenses and does not meet the minimum requirements of financial records required by this department.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities and of their fiduciary responsibility to monitor the pension plan account.

Effect: Inadequate monitoring of the non-uniformed pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures. Although we were able to obtain copies from a third-party source in order to complete our engagement, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations.

Recommendation: We recommend that the municipality obtain annual financial statements of transactions in the non-uniformed pension plan account and monitor the statements as to the accuracy and propriety of the transactions. We also recommend that plan officials establish accounting procedures which meet the minimum record-keeping requirements of this department. Plan officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting procedures.

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

Auditor’s Conclusion: Compliance will be determined during the next audit of the plan.

LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 2 through 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, 2016, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 2,782	\$ 4,407	\$ 4,066	\$ 2,143
Interest	9,555	10,127	10,133	10,051
Difference between expected and actual experience	12,541	-	7,196	-
Changes of assumptions	-	2,001	3,837	-
Benefit payments, including refunds of member contributions	(16,091)	(16,091)	(16,091)	(16,091)
Net Change in Total Pension Liability	<u>8,787</u>	<u>444</u>	<u>9,141</u>	<u>(3,897)</u>
Total Pension Liability – Beginning	178,875	187,662	188,106	197,247
Total Pension Liability – Ending (a)	<u>\$ 187,662</u>	<u>\$ 188,106</u>	<u>\$ 197,247</u>	<u>\$ 193,350</u>
Plan Fiduciary Net Position				
Contributions – employer	\$ 17,740	\$ 15,239	\$ 15,824	\$ 15,784
Contributions – PMRS assessment	-	140	140	140
Net investment income	9,650	3,242	15,531	30,073
Benefit payments, including refunds of member contributions	(16,091)	(16,091)	(16,091)	(16,091)
Administrative expense	(426)	(475)	(565)	(549)
Net Change in Plan Fiduciary Net Position	<u>10,873</u>	<u>2,055</u>	<u>14,839</u>	<u>29,357</u>
Plan Fiduciary Net Position – Beginning	140,068	150,941	152,996	167,835
Plan Fiduciary Net Position – Ending (b)	<u>\$ 150,941</u>	<u>\$ 152,996</u>	<u>\$ 167,835</u>	<u>\$ 197,192</u>
Net Pension Liability – Ending (a-b)	<u>\$ 36,721</u>	<u>\$ 35,110</u>	<u>\$ 29,412</u>	<u>\$ (3,842)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.43%	81.33%	85.09%	101.99%
Estimated Covered Employee Payroll	\$ 35,240	\$ 57,638	\$ 57,429	\$ 32,822
Net Pension Liability as a Percentage of Covered Employee Payroll	104.20%	60.91%	51.21%	(11.71%)

LIMESTONE 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	\$ 51,968	\$ 36,721	\$ 23,359
Net Pension Liability – 12/31/15	\$ 50,577	\$ 35,110	\$ 21,598

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	\$ 46,188	\$ 29,412	\$ 14,826
Net Pension Liability – 12/31/17	\$ 12,603	\$ (3,842)	\$ (18,140)

LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 17,720	\$ 17,740	\$ (20)	\$ 35,240	50.34%
2015	15,379	15,379	-	57,638	26.68%
2016	15,964	15,964	-	57,429	27.80%
2017	15,924	15,924	-	32,822	48.52%
2018	12,882	12,882	-	*	

\* Due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.



LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2013, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 132,361	\$ 181,580	\$ 49,219	72.9%
01-01-15	156,208	187,662	31,454	83.2%
01-01-17	183,164	197,247	14,083	92.9%

LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

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

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	2 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

LIMESTONE 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. Andrew P. Keister**  
Chairman, Board of Township Supervisors

**Ms. Teresa M. Haines**  
Secretary/Treasurer

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

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