

LIMITED PROCEDURES ENGAGEMENT

Limestone Township Non-Uniformed Pension Plan Lycoming County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

December 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Limestone Township
Lycoming County
Jersey Shore, PA 17740

We conducted a Limited Procedures Engagement (LPE) of the Limestone 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 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 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 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 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On The AG 385 Certification Form Resulting In An Overpayment Of State Aid.

The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this report.

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.

October 25, 2018



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Finding	1
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On The AG 385 Certification Form Resulting In An Overpayment Of State Aid	2
Supplementary Information	4
Summary of Deposited State Aid and Employer Contributions	6
Report Distribution List	7

LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Report Recommendation

Limestone Township has partially complied with the prior audit report recommendation concerning the following:

· Incorrect Data On The AG 385 Certification Form Resulting In An Overpayment Of State Aid

During the current audit period, the township reimbursed \$1,762 to the Commonwealth for the overpayment of state aid received during 2011; 2012 and 2013, however, plan officials failed to include the required interest due on the overpayment as also previously recommended. In addition, a similar condition occurred during the current period. Plan officials again failed to correctly certify data contained on the AG 385 Certification Forms submitted since the last engagement as further discussed in the Finding and Recommendation of this report.

LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in Status of Prior Finding section of this report, the municipality partially complied with the prior audit recommendation by reimbursing the Commonwealth for the overpayment of state aid received during 2011, 2012, and 2013; however, plan officials failed to include the required interest due on the overpayment. It was previously recommended 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, the interest remains outstanding.

In addition, a similar condition occurred during the current period. The municipality certified an ineligible part-time non-uniformed employee and overstated payroll by \$7,701 on the Certification Form AG 385 filed in 2017; and additionally, the municipality certified an ineligible part-time non-uniformed employee and overstated payroll by \$9,284 on the Certification Form AG 385 filed subsequent to the current period during 2018. The data contained on these certification forms is based on prior calendar year information.

Criteria: As disclosed in the prior report, 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.

In addition, regarding the outstanding interest due on the state aid overpayment:

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: Plan officials again failed to adopt adequate internal control procedures to ensure the accuracy of the data certified and ensure full compliance with this department's prior recommendations.

LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued):

Effect: The data submitted on these certification forms 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>
2017	8.0%	\$ 7,701	\$ 616
2018	8.0%	\$ 9,284	743
		Total	<u>\$ 1,359</u>

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan causing excess state aid to be deposited into the pension plan in excess of pension costs attributable to its full-time employees; therefore, the reimbursement to the Commonwealth should be made from the pension plan. Moreover, the pension plan retained the interest earned on the state aid overpayments.

Recommendation: We recommend that the overpayment of state aid, in the amount of \$1,359, plus interest, along with the outstanding interest due on the prior state aid overpayments received during 2011, 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 from the pension plan. 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.

We also again 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: The township’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next engagement of the pension plan. We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

LIMESTONE TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(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	\$ 4,726	\$ 4,743	\$ 4,934
Interest	4,506	5,019	5,559
Net Change in Total Pension Liability	<u>9,232</u>	<u>9,762</u>	<u>10,493</u>
Total Pension Liability – Beginning	80,270	89,502	99,264
Total Pension Liability – Ending (a)	<u>\$ 89,502</u>	<u>\$ 99,264</u>	<u>\$ 109,757</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 4,011	\$ 3,985	\$ 4,078
Contributions – PMRS Assessment	-	40	40
Contributions – member	755	706	856
PMRS investment income	4,526	5,039	5,579
Market value investment income	(306)	(5,653)	1,932
PMRS administrative expense	(40)	(40)	(40)
Additional administrative expenses	(174)	(210)	(273)
Net Change in Plan Fiduciary Net Position	<u>8,772</u>	<u>3,867</u>	<u>12,172</u>
Plan Fiduciary Net Position – Beginning	79,495	88,267	92,134
Plan Fiduciary Net Position – Ending (b)	<u>\$ 88,267</u>	<u>\$ 92,134</u>	<u>\$ 104,306</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,235</u>	<u>\$ 7,130</u>	<u>\$ 5,451</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.62%	92.82%	95.03%
Estimated Covered Employee Payroll	\$ 49,646	\$ 50,470	\$ 50,976
Net Pension Liability as a Percentage of Covered Employee Payroll	2.49%	14.13%	10.69%

* 2015 employer contributions does not include transfer of \$79 from municipal reserve for municipal for members.

LIMESTONE 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 5.50%, 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	\$ 19,136	\$ 1,235	\$ (16,665)
Net Pension Liability - 12/31/15	\$ 26,983	\$ 7,130	\$ (12,723)

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	\$ 27,403	\$ 5,451	\$ (16,500)

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 3,852	\$ 77
2013	3,929	7
2014	3,353	658
2015	3,368	736
2016	3,488	590
2017	4,010	None

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. Dale Winter
Chairman, Board of Township Supervisors

Ms. Jeanne Engle
Chief Administrative Officer

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.