

# LIMITED PROCEDURES ENGAGEMENT

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## Lower Towamensing Township Non-Uniformed Pension Plan Carbon County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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April 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
Lower Towamensing Township  
Carbon County  
Palmerton, PA 18071

We conducted a Limited Procedures Engagement (LPE) of the Lower Towamensing Township Non-Uniformed Pension Plan for the period January 1, 2016 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 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, 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 Lower Towamensing 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 An Overpayment Of State Aid


Finding No. 2 - Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

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 Lower Towamensing 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.

March 10, 2020



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Findings and Recommendations:	
Finding No. 1 - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.....	1
Finding No. 2 - Failure To Deposit The Full Amount Of State Aid Into The Pension Plan.....	2
Supplementary Information – Defined Benefit.....	4
Supplementary Information – Cash Balance .....	10
Report Distribution List .....	13

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

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

Condition: The township certified an ineligible non-uniformed employees (1 unit) and overstated payroll by \$12,901 on the Certification Form AG 385 filed in 2019. The township certified a non-uniformed employee who was on medical leave and did not receive service credit while on such leave, and therefore, was not eligible for certification on the AG 385 submitted during 2019 according to Act 205. 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 were unaware that the employee on medical leave and not credited service time while on such leave was not eligible for certification purposes pursuant to Act 205. Moreover, internal control procedures, such as having at least two people review the data certified, were not operating effectively to ensure compliance with the instructions that accompany Certification Form AG 385 in accurately reporting the required pension data.

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.

The township's state aid for 2019 was based on the plan's pension costs in the amount of \$17,764. However, based on the corrected information, the township was only entitled to an allocation of \$15,361 based on unit value calculation. Therefore, the township received an overpayment of state aid in the amount of \$2,403 in 2019.

Recommendation: We recommend that the total excess state aid, in the amount of \$2,403, 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 develop a familiarity with provisions of Act 205 regarding the certification of full-time, actively participating employees and establish adequate internal control procedures, such as having at least two 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.

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued):**

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

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

**Finding No. 2 - Failure To Deposit The Full Amount Of State Aid Into The Pension Plan**

Condition: The municipality did not deposit the full amount of its 2018 and 2019 state aid allocations into its pension plan. The municipality received its 2018 and 2019 state aid allocations in the amounts of \$18,738 and \$17,764, respectively, on September 20, 2018 and September 18, 2019, respectively; however, as of the date of this report, only state aid totaling \$11,301 and \$8,083 was deposited into the pension plan and remains in the township’s general fund.

Criteria: Section 402(g) of Act 205 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.

Cause: The full amount of the 2018 and 2019 state aid was not deposited into the pension plan because plan officials were unaware of applicable Act 205 provisions. The municipality deposits its minimum municipal obligations for its pension plan (*defined benefit and cash balance components*) quarterly, from its general fund and believed that since the funds were deposited electronically directly into the general fund upon allocation from the Commonwealth, the funds were deposited in accordance with Act 205. However, since recently adding a cash balance component to its existing municipal pension plan, effective for employees hired after July 1, 2016, plan officials failed to establish adequate internal control procedures to reconcile the township’s annual state aid allocation, along with municipal reserve funds from forfeitures and earnings available to reduce municipal contributions, with the plan’s actual cash balance pension costs with any remaining state aid allocable to its defined benefit portion of its municipal pension plan or returned to the Commonwealth, if there are no remaining defined benefit plan costs.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued):**

Recommendation: We recommend that the municipality deposit the township’s remaining state aid amounting to \$14,715,<sup>1</sup> plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into the defined benefit portion of its pension plan. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials reconcile the township’s annual state aid allocation, along with any municipal reserve funds from employee forfeitures and interest earnings available to reduce municipal contributions, with the plan’s annual cash balance pension costs with any remaining state aid allocable to its defined benefit portion of its plan to ensure that all future state aid is deposited into its non-uniformed pension plan in accordance with Act 205.

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

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

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<sup>1</sup> Amount does not include \$2,403 which must be returned to the Commonwealth per Finding No. 1.

LOWER TOWAMENSING 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  
DEFINED BENEFIT  
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 5,439	\$ 5,216	\$ 5,107	\$ 5,533	\$ 5,807
Interest	5,124	4,988	5,072	5,475	5,894
Difference between expected and actual experience	(9,283)	-	1,080	-	4,741
Changes of assumptions	-	(5,268)	3,703	-	-
Benefit payments, including refunds of member contributions	(3,740)	(3,310)	(3,310)	(3,310)	(3,310)
Net Change in Total Pension Liability	(2,460)	1,626	11,652	7,698	13,132
Total Pension Liability - Beginning	89,574	87,114	88,740	100,392	108,090
Total Pension Liability - Ending (a)	<u>\$ 87,114</u>	<u>\$ 88,740</u>	<u>\$ 100,392</u>	<u>\$ 108,090</u>	<u>\$ 121,222</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 10,326	\$ 10,162	\$ 10,262	\$ 8,168	\$ 8,272
Contributions - PMRS assessment	-	40	40	40	40
PMRS investment income	4,386	4,822	5,513	5,840	6,418
Market value investment income	95	(4,692)	2,277	12,571	(12,263)
Benefit payments, including refunds of member contributions	(3,740)	(3,310)	(3,310)	(3,310)	(3,310)
PMRS administrative expense	(40)	(40)	(40)	(40)	(40)
Additional administrative expense	(168)	(201)	(270)	(269)	(286)
Net Change in Plan Fiduciary Net Position	10,859	6,781	14,472	23,000	(1,169)
Plan Fiduciary Net Position - Beginning	68,560	79,419	86,200	100,672	123,672
Plan Fiduciary Net Position - Ending (b)	<u>\$ 79,419</u>	<u>\$ 86,200</u>	<u>\$ 100,672</u>	<u>\$ 123,672</u>	<u>\$ 122,503</u>
Net Pension Liability - Ending (a-b)	<u>\$ 7,695</u>	<u>\$ 2,540</u>	<u>\$ (280)</u>	<u>\$ (15,582)</u>	<u>\$ (1,281)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.17%	97.14%	100.28%	114.42%	101.06%
Estimated Covered Employee Payroll	\$ 41,809	\$ 40,092	\$ 41,096	\$ 41,845	\$ 43,914
Net Pension Liability as a Percentage of Covered Employee Payroll	18.41%	6.34%	(0.68%)	(37.24%)	(2.92%)



LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – Defined Benefit

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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ 21,919	\$ 7,695	\$ (4,039)
Net Pension Liability - 12/31/15	\$ 17,286	\$ 2,540	\$ (9,609)

In addition, the following presents the net pension liability of the township as of December 31, 2016, 2017 and 2018, 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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 16,403	\$ (280)	\$ (14,107)
Net Pension Liability - 12/31/17	\$ 2,380	\$ (15,582)	\$ (30,469)
Net Pension Liability - 12/31/18	\$ 18,551	\$ (1,281)	\$ (17,876)

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS  
 DEFINED BENEFIT

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 10,326	\$ 10,326	\$ -	\$ 41,809	24.70%
2015	10,202	10,202	-	40,092	25.45%
2016	10,302	10,302	-	41,096	25.07%
2017	8,208	8,208	-	41,845	19.62%
2018	8,312	8,312	-	43,914	18.93%

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS  
 DEFINED BENEFIT

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	\$ 60,866	\$ 84,163	\$ 23,297	72.3%
01-01-15	81,334	87,114	5,780	93.4%
01-01-17	107,626	100,392	(7,234)	107.2%

Effective July 1, 2016, the defined benefit features of the municipal pension plan were closed to new participants and all employees’ hired by the township on or after such date were enrolled into the cash balance features of the non-uniformed pension plan.

LOWER TOWAMENSING 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.

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 DEFINED BENEFIT  
 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	N/A
Remaining amortization period	N/A
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.

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 9 through 10 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  
CASH BALANCE  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 4,370	\$ 4,882
Interest	83	342
Change of benefit terms	-	33
Difference between expected and actual experience	-	(1)
Net Change in Total Pension Liability	<u>4,453</u>	<u>5,256</u>
Total Pension Liability - Beginning	-	4,453
Total Pension Liability - Ending (a)	<u>\$ 4,453</u>	<u>\$ 9,709</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 2,185	\$ 1,789
Contributions - PMRS assessment	60	60
Contributions - member	2,185	1,953
PMRS investment income	32	306
Market value investment income	200	(784)
Administrative expense	-	(60)
Additional administrative expense	(1)	(14)
Net Change in Plan Fiduciary Net Position	<u>4,661</u>	<u>3,250</u>
Plan Fiduciary Net Position - Beginning	-	4,661
Plan Fiduciary Net Position - Ending (b)	<u>\$ 4,661</u>	<u>\$ 7,911</u>
Net Pension Liability - Ending (a-b)	<u>\$ (208)</u>	<u>\$ 1,798</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	104.67%	81.48%
Estimated Covered Employee Payroll	\$ 113,967	\$ 97,630
Net Pension Liability as a Percentage of Covered Employee Payroll	(0.18%)	1.84%

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – Cash Balance

The following presents the net pension liability of the township as of December 31, 2017 and 2018, 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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/17	\$ 682	\$ (208)	\$ (1,099)
Net Pension Liability - 12/31/18	\$ 3,740	\$ 1,798	\$ (144)

LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF EMPLOYER CONTRIBUTIONS  
 CASH BALANCE

Year Ended December 31	Statutorily Required Contribution (SRC)	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2017	\$ 2,185	\$ 2,245	\$ (60)	\$ 113,967	1.97%
2018	2,989	1,849	1,140	97,630	1.89%

\* The Statutorily Required Contribution (SRC) and the actual Contribution were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the Municipal account.

The cash balance features of the pension plan are effective for employees hired by the township on or after July 1, 2016.



LOWER TOWAMENSING TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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