

# LIMITED PROCEDURES ENGAGEMENT

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

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December 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

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We conducted a Limited Procedures Engagement (LPE) of the Union 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 Union 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 – Untimely Deposit Of State Aid

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 Union 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.

December 12, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Untimely Deposit Of State Aid.....	1
Supplementary Information .....	2
Report Distribution List .....	9

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2017 state aid allocation into the pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2017 state aid allocation in the amount of \$18,353, on September 27, 2017, but did not deposit the money into its non-uniformed pension plan until December 29, 2017.

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 2017 state aid was not deposited timely into the municipality’s pension plan because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the non-uniformed pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the township for examination during our next engagement of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

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

The supplementary information contained on Pages 2 through 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 16,899	\$ 13,919
Interest	15,486	16,732
Difference between expected and actual experience	11,482	-
Changes of assumptions	-	(2,941)
Benefit payments, including refunds of member contributions	<u>(16,012)</u>	<u>(20,535)</u>
Net Change in Total Pension Liability	27,855	7,175
Total Pension Liability – Beginning	<u>272,569</u>	<u>300,424</u>
Total Pension Liability – Ending (a)	<u>\$ 300,424</u>	<u>\$ 307,599</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 20,679	\$ 21,334
Contributions – PMRS assessment	-	140
PMRS investment income	13,374	14,010
Market value investment income	1,534	(13,241)
Benefit payments, including refunds of member contributions	(16,012)	(20,535)
Administrative expense	(160)	(140)
Additional administrative expense	<u>(513)</u>	<u>(584)</u>
Net Change in Plan Fiduciary Net Position	18,902	984
Plan Fiduciary Net Position – Beginning	<u>237,401</u>	<u>256,303</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 256,303</u>	<u>\$ 257,287</u>
Net Pension Liability – Ending (a-b)	<u>\$ 44,121</u>	<u>\$ 50,312</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.31%	83.64%
Estimated Covered Employee Payroll	\$ 188,824	\$ 153,903
Net Pension Liability as a Percentage of Covered Employee Payroll	23.37%	32.69%

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

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 13,406	\$ 14,691
Interest	17,153	16,206
Difference between expected and actual experience	(24,947)	-
Changes of assumptions	7,528	-
Benefit payments, including refunds of member contributions	<u>(18,513)</u>	<u>(16,663)</u>
Net Change in Total Pension Liability	(5,373)	14,234
Total Pension Liability – Beginning	<u>307,599</u>	<u>302,226</u>
Total Pension Liability – Ending (a)	<u>\$ 302,226</u>	<u>\$ 316,460</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 21,864	\$ 20,243
Contributions – PMRS assessment	180	140
PMRS investment income	14,996	13,844
Market value investment income	(16,620)	32,094
Benefit payments, including refunds of member contributions	(18,513)	(16,663)
PMRS Administrative expense	(160)	(140)
Additional administrative expense	<u>(735)</u>	<u>(637)</u>
Net Change in Plan Fiduciary Net Position	1,012	48,881
Plan Fiduciary Net Position – Beginning	<u>257,287</u>	<u>258,299</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 258,299</u>	<u>\$ 307,180</u>
Net Pension Liability – Ending (a-b)	<u>\$ 43,927</u>	<u>\$ 9,280</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.47%	97.07%
Estimated Covered Employee Payroll	\$ 152,702	\$ 161,783
Net Pension Liability as a Percentage of Covered Employee Payroll	28.77%	5.74%

UNION 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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability – 12/31/14	\$ 74,577	\$ 44,121	\$ 17,972
Net Pension Liability – 12/31/15	\$ 82,125	\$ 50,312	\$ 23,044

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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability – 12/31/16	\$ 77,220	\$ 43,927	\$ 15,488
Net Pension Liability – 12/31/17	\$ 44,141	\$ 9,280	\$ (20,498)



UNION 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	\$ 19,491	\$ 20,679	\$ (1,188)	\$ 188,824	10.95%
2015	21,474	21,474	-	153,903	13.95%
2016	22,024	22,044	(20)	152,702	14.44%
2017	20,383	20,383	-	161,783	12.60%
2018	20,742	20,762	(20)	*	

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

UNION 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	\$ 222,275	\$ 255,074	\$ 32,799	87.1%
01-01-15	263,914	300,424	36,510	87.8%
01-01-17	280,511	302,226	21,715	92.8%

UNION 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.

UNION 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	5 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

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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