

COMPLIANCE AUDIT

College Township Non-Uniformed Pension Plan Centre County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

June 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Township Council
College Township
Centre County
State College, PA 16801

We have conducted a compliance audit of the College Township Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2015. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- × We determined 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 period under audit. State aid allocations that were deposited into the pension plan for the years ended December 31, 2010 to December 31, 2015, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × We determined 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, 2010 to December 31, 2015, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- × We determined whether retirement benefits calculated for the plan member who retired during the current audit 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 lump sum pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the 2 plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- × We determined whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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.

College Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2013 and 2014, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the College Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and

implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

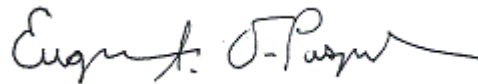
The results of our procedures indicated that, in all significant respects, the College Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Failure To Properly Allocate Forfeitures

The contents of this report were discussed with officials of College Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

May 26, 2016



EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). 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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the College Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The College Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. R-92-15, as amended. The plan was established July 7, 1970. Active members are not required to contribute to the plan. The municipality is required to contribute 7.5 percent of each participant's base wages. As of December 31, 2015, the plan had 27 active members, 3 terminated members eligible for vested benefits in the future, and 1 retiree receiving pension benefits.

COLLEGE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the pension plan’s defined contribution pension costs in the year 2014, as illustrated below:

State aid allocation	\$ 99,646
Actual municipal pension costs	<u>(98,338)</u>
Excess state aid	<u><u>\$ 1,308</u></u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs and reimburse the difference to the Commonwealth.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the year 2014, in the total amount of \$1,308, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$1,308 of excess state aid received in the year 2014 to the Commonwealth from the township’s general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

COLLEGE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we recommend that plan officials reconcile the amount of state aid and municipal contributions allocated to the pension plan with the plan’s annual defined contribution pension costs. If there is an overpayment of state aid, it should then be reimbursed to the Commonwealth.

Management 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 audit of the pension plan.

Finding No. 2 – Failure To Properly Allocate Forfeitures

Condition: The township failed to allocate terminated employee forfeitures in the amount of \$1,698 to eligible members’ accounts in accordance with the non-uniformed pension plan document.

Criteria: Resolution No. R-02-03, an amendment to the plan’s governing document, Resolution No. R-92-15, states:

Annually before January 31, of the current year, the forfeiture account balance as of December 31 of the immediately preceding plan year will be applied in the following manner and order: 1) to the extent the reconciliation (as outlined above) shows that the plan costs exceed state aid, reimburse the Township for such excess, 2) pay the administrative fees of the plan participants for the year, and 3) distribute any remaining balance in the forfeiture account to the plan participants on a per capita basis ...

Cause: When reconciling the plan’s actual 2014 defined contribution pension costs to state aid, the township improperly utilized the 2013 state aid allocation amount instead of the 2014 state aid allocation amount. As a result, township officials reimbursed \$1,698 to the township from the available forfeiture balance for what they believed to be municipal contributions for 2014 when in fact the \$1,698 should have been allocated to eligible members’ accounts.

Effect: The forfeiture balance, in the amount of \$1,698, was not allocated to the eligible members’ accounts in 2015. The failure to properly allocate forfeitures could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

COLLEGE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Due to the township's failure to properly allocate the forfeitures to the eligible members' accounts, the township must now allocate the \$1,698 plus interest on the delinquent allocation.

Recommendation: We recommend that the township allocate the forfeiture of \$1,698 due to the eligible members' accounts, with interest from the date the forfeiture was known and available for distribution. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly allocate forfeitures in accordance with the plan document.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 90,576	\$ 1,516
2011	91,988	None
2012	89,885	5,253
2013	96,625	102
2014	98,323	None
2015	103,509	1,388

COLLEGE 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. Lynn B. Herman
Chairman, Township Council

Mr. D. Richard Francke
Vice-Chairman, Township Council

Ms. Carla Stilson
Council Member

Mr. L. Eric Bernier
Council Member

Mr. Steven J. Lyncha
Council Member

Mr. Adam T. Brumbaugh
Township Manager

Mr. Robert Long
Finance Director

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.