

COMPLIANCE AUDIT

Hellam Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

August 2017



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
Hellam Township
York County
York, PA 17406

We have conducted a compliance audit of the Hellam Township Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. 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 if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, 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 all 3 of the plan members who terminated employment and/or retired and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former 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.

Hellam Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Hellam 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 Hellam 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation –
Restated Plan Document Not Adopted By Ordinance

The contents of this report were discussed with officials of Hellam 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.

August 9, 2017

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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 Hellam Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Hellam Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2003-11, as amended. The plan was established April 5, 1990. Active members are not required to contribute to the plan. The municipality is required to contribute 7 percent of each participant's total annual compensation. As of December 31, 2016, the plan had 9 active members and 6 terminated members eligible for vested benefits in the future.

HELLAM TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

- Restated Plan Document Not Adopted By Ordinance

The township adopted Ordinance No. 2013-08 which reflects the vesting provision contained in the revised plan document; however, Ordinance No. 2003-11 has not been amended to reflect all of the updated plan provisions as further discussed in the Finding and Recommendation section of this report.

HELLAM TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Restated Plan Document Not Adopted By Ordinance

Condition: As disclosed in our prior audit report, the Hellam Township Non-Uniformed Pension Plan is currently controlled by the provisions of Ordinance No. 2003-11, as amended. The terms, provisions and conditions of the non-uniformed pension plan were restated in a separately executed plan document with the ICMA Retirement Corporation effective November 17, 2008. While the township did adopt Ordinance No. 2013-08 which reflects the vesting provision contained in the revised plan document, Ordinance No. 2003-11 has not been amended to reflect updated membership eligibility provisions, an updated Earnings definition to include Bonuses, and rollover contribution provisions contained in the revised plan document.

Criteria: Sound internal control dictates that benefit provisions should be consistent within the plan documents to avoid the payment of improper or inconsistent benefits to plan members and their beneficiaries.

Furthermore, in Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: The failure to properly adopt all provisions of the restated plan agreement could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We again recommend that municipal officials take appropriate action to formally adopt all provisions of the restated plan document through a properly executed ordinance.

Management's Response: Municipal officials agreed with the finding without exception. In 2013 the township adopted Ordinance No. 2013-08 which amended the plan's vesting provision. The plan's chief administrative officer reached out to ICMA for assistance in the development of an amended ordinance.

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

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 24,759	None
2012	15,733	\$ 10,067
2013	27,118	786
2014	28,617	None
2015	10,283	18,303
2016	14,289	7,047

Note: In 2015, the township met the plan's \$29,048 funding requirement through the deposit of \$10,283 in state aid, \$462 in terminated employee forfeitures, and \$18,303 in employer contributions. In 2016, the township met the plan's \$23,966 funding requirement through the deposit of \$14,289 in state aid, \$2,630 in terminated employee forfeitures, and \$7,047 in employer contributions.

HELLAM 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. Galen Weibley
Chairman, Board of Township Supervisors

Mr. Phil Smith
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Ms. Amy Nevin
Township Supervisor

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Ms. Riki Potosky
Township Supervisor

Ms. Corina Mann
Chief Administrative Officer

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.