

LIMITED PROCEDURES ENGAGEMENT

Lewis Township Non-Uniformed Pension Plan Northumberland County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

August 2016



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
Lewis Township
Northumberland County
Watsonstown, PA 17777

We conducted a Limited Procedures Engagement (LPE) of the Lewis Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2015 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 findings 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, 2010 to December 31, 2015, 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, 2010 to December 31, 2015, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.
- Whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Lewis 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 subsequent to this letter:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Ownership Of Allocated Insurance Contracts
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Improper Loan Provision Contained In An Allocated Insurance Contract
- Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding Nos. 1 and 2 contained in this LPE results letter repeat conditions that were cited in our previous audit report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this letter.

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

August 19, 2016

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

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LEWIS TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Lewis Township has complied with the prior audit recommendation concerning the following:

- Pension Plan Not Adopted By Ordinance Or Resolution

Municipal officials formally adopted the pension plan's benefit provisions by adopting Ordinance No. 2014-08.

Noncompliance With Prior Audit Recommendations

The township has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this letter:

- Improper Ownership Of Allocated Insurance Contracts

- Improper Loan Provision Contained In An Allocated Insurance Contract

LEWIS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Ownership
Of Allocated Insurance Contracts**

Condition: As disclosed in the prior audit report, the township is funding allocated insurance contracts that improperly designate individual plan members as the owners of the contracts.

Criteria: Since premiums on these policies have been paid with state aid and municipal funds, the township should maintain ownership of the allocated insurance contracts to ensure the plan's assets are adequately safeguarded.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with this Department's prior audit recommendation.

Effect: Continued improper ownership of the allocated insurance contracts results in the plan's assets not being adequately safeguarded and could result in premature benefit withdrawals or other improper dispositions of the funds.

Recommendation: We again recommend that pension plan officials take the necessary steps to change the ownership of these allocated insurance contracts from the plan members to the pension plan or municipality. If this cannot be accomplished, we recommend that the municipality implement adequate internal control procedures to ensure that the proceeds from the allocated insurance contracts are not surrendered to the plan members prior to their eligibility to receive benefits from the pension plan.

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

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

LEWIS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Improper Loan Provision Contained In An Allocated Insurance Contract

Condition: As disclosed in the prior audit report, one of the allocated insurance contracts improperly contains a provision that allows for loans to active plan members.

Criteria: Section 102 of Act 205 contain the following definitions:

“Pension plan or system”. The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not for loans to be made to active plan members.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with this Department’s prior audit recommendation.

Effect: The unauthorized loan provision violates the intent of Act 205 to only provide benefit distributions to plan members upon their retirement or termination of employment with the municipality.

Recommendation: We again recommend that municipal officials take appropriate action to eliminate the unauthorized loan provision from the allocated insurance contract at their earliest opportunity to do so.

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

Auditor’s Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

LEWIS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

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

State aid allocation	\$ 6,104
Actual municipal pension costs	<u>(5,964)</u>
Excess state aid	<u>\$ 140</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 failed to establish adequate internal control procedures to reconcile the township’s state aid allocation with the plan’s actual defined contribution pension costs.

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 \$140, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$140 of excess state aid received in the year 2014 to the Commonwealth from the non-uniformed pension plan. 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.

Furthermore, we recommend that, in the future, plan officials reconcile the township’s annual state aid allocation and municipal contributions made to the pension plan with the plan’s annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

LEWIS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 LPE results letter and through our next engagement of the pension plan.

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township overstated payroll by \$1,200 on the Certification Forms AG 385 filed in 2013 and 2014 by including supervisor meeting pay. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and failed to follow the instructions accompanying the certification form.

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 allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2013	10.0%	\$ 1,200	\$ 120
2014	10.0%	\$ 1,200	\$ 120
Total Overpayment of State Aid			<u><u>\$ 240</u></u>

In addition, the township used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

LEWIS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$240, 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, 320 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 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.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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 audit of the pension plan.

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 6,247	\$ None
2011	6,223	None
2012	6,223	334
2013	6,556	394
2014	6,104	None
2015	5,964	768

LEWIS TOWNSHIP NON-UNIFORMED PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Willard Murray
Chairman, Board of Township Supervisors

Ms. Lucinda Bomberger
Secretary/Treasurer

This letter is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the letter 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.