

COMPLIANCE AUDIT

St. Thomas Township Non-Uniformed Pension Plan Franklin County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

September 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
St. Thomas Township
Franklin County
Chambersburg, PA 17202

We have conducted a compliance audit of the St. Thomas Township Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior 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 findings contained in our prior 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, 2017 to December 31, 2022, 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, 2017 to December 31, 2022, 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 plan members who separated employment and received a lump-sum distribution during the current audit period, and through the completion of our fieldwork procedures, 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, 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.
- We determined whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, was 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.

The township has elected to purchase an allocated insurance contract to fund a portion of the benefits provided by the pension plan at retirement. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 67 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets.

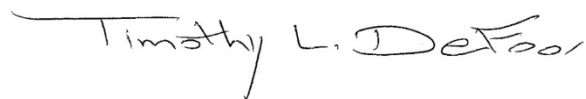
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the St. Thomas Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 St. Thomas 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 – Partial Compliance With Prior Recommendation - Receipt Of State Aid In Excess Of Entitlement
- Finding No. 2 – Partial Compliance With Prior Recommendation - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Findings No. 1 and 2 contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct these previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

The contents of this report were discussed with officials of St. Thomas 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.



Timothy L. DeFoor
Auditor General
September 6, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement	3
Finding No. 2 – Partial Compliance With Prior Recommendation – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan	4
Summary of Deposited State Aid and Employer Contributions.....	6
Report Distribution List	7

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.

Annual state aid allocations are provided from a two (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 St. Thomas Township Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code, and applicable provisions of various other state statutes.

The St. Thomas Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance Number 105, as amended. The plan was established May 30, 1986. Active members are not required to contribute to the plan. The municipality is required to contribute six and one-half percent (6 1/2%) of each participant's compensation. As of December 31, 2022, the plan had four active members, and one terminated member eligible for vested benefits in the future.

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendations

St. Thomas Township has partially complied with the prior recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the township returned the excess state aid received in the years 2014 and 2017 to the Commonwealth. However, plan officials again received state aid in excess of the non-uniformed pension plan's defined contribution pension costs as further discussed in the Findings and Recommendations section of this audit report; and

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

During the current audit period, the township liquidated a portion (\$6,877) of the unallocated reserve fund maintained by the non-uniformed pension plan. However, the township again failed to reconcile the amount of state aid allocated and municipal contributions made to the non-uniformed pension plan with the non-uniformed pension plan's annual pension costs as further discussed in the Findings and Recommendations section of this audit report.

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by returning excess state aid received in the years 2014 and 2017 to the Commonwealth. However, the township again received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2018, as illustrated below:

State aid allocation	\$ 10,759
Actual municipal pension costs	<u>(10,271)</u>
Excess state aid	<u>\$ 488</u>

The excess state aid remained in the pension plan as of the date of this report.

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 implemented procedures to reconcile the township’s state aid allocation with the plan’s actual defined contribution pension costs and identified the excess state aid for 2018 but were not aware of where to return the excess state aid received.

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 2018 must be returned to the Commonwealth for redistribution.

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality return the \$488 of excess state aid received in the year 2018 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Additionally, we again recommend that, in the future, plan officials continue to 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 (*address is noted in the preceding paragraph*).

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 – Partial Compliance With Prior Recommendation - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by liquidating a portion of the unallocated reserve fund maintained by the non-uniformed pension plan. However, the township again made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan for the years 2019 and 2021, as illustrated below:

	<u>2019</u>	<u>2021</u>	<u>Total</u>
Actual municipal pension costs	\$ 10,205	\$ 13,077	\$ 23,282
State aid allocated	<u>(9,771)</u>	<u>(12,255)</u>	<u>(22,026)</u>
Municipal contributions required to fund plan	<u>\$ 434</u>	<u>\$ 822</u>	<u>\$ 1,256</u>
Actual municipal contributions made	\$ 4,818	\$ 2,287	\$ 7,105
Municipal contributions required to fund plan	<u>(434)</u>	<u>(822)</u>	<u>(1,256)</u>
Excess municipal contributions	<u>\$ 4,384</u>	<u>\$ 1,465</u>	<u>\$ 5,849</u>

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section IA of Ordinance No. 133 states, in part:

...the plan shall be financed by periodic payments made by the municipality in the amount of six and one-half percent (6 1/2%) of each participant's compensation.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The township again did not implement adequate internal control procedures to ensure that municipal contributions did not exceed the required level of contributions outlined in the plan's governing document as previously recommended.

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of the level of contributions required to fund the pension plan in 2019 and 2021 and the partial liquidation of reserve funds to comply with the prior audit recommendation (*refer to Status of Prior Findings section of this report*), the unallocated reserve fund (\$10,338 as of January 1, 2018) decreased to \$5,867 as of December 31, 2022.

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We again recommend that the township liquidate any remaining unallocated reserve funds maintained by the non-uniformed pension plan (*after the return of \$488 in excess state aid to the Commonwealth as noted in Finding No. 1 of this report*) by transferring assets which represent non-state aid funds, to the township's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also again recommend that, in the future, plan officials reconcile the amount of state aid allocated and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

Management's Response: Municipal officials agreed with the finding without exception. As of July 19, 2023, municipal officials substantially reduced all of the remaining unallocated reserve funds.

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

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	\$ 11,742	\$ 1,200
2018	10,759	None
2019	9,771	\$ 4,818
2020	11,107	787
2021	12,255	2,287
2022	12,577	1,790

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Timothy Sollenberger
Chairman, Board of Township Supervisors

Ms. Susan Zimmerman
Secretary/Treasurer

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.