

COMPLIANCE AUDIT

Shenango Township Non-Uniformed Union Pension Plan

Lawrence County, Pennsylvania
For the Period
January 1, 2011 to December 31, 2013

September 2014



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
Shenango Township
Lawrence County
New Castle, PA 16101

We have conducted a compliance audit of the Shenango Township Non-Uniformed Union Pension Plan for the period January 1, 2011 to December 31, 2013. 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the provisions of the union pension plan agreement are in accordance with the plan's governing document and the collective bargaining agreement and that payments made to the multi-employer union pension plan are made in accordance with the collective bargaining agreement.

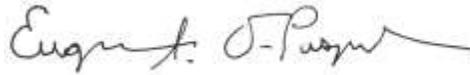
The township's non-uniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Shenango Township Non-Uniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango Township Non-Uniformed Union 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, 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 tests indicated that, in all significant respects, the Shenango Township Non-Uniformed Union 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 -
Failure To Properly Fund Member Accounts

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



EUGENE A. DEPASQUALE
Auditor General

July 18, 2014

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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 Shenango Township Non-Uniformed Union 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.

As further described in the Letter from the Auditor General included in this report, the township's non-uniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund. The Shenango Township Non-Uniformed Union Pension Plan is locally controlled by the provisions of Resolution No. 2 of 2008. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed union employees. The plan was established January 1, 2003. Active members are not required to contribute to the plan. The municipality was required to weekly contribute \$69 per employee in 2011, \$90 per employee in 2012, and \$96 per employee in 2013. As of December 31, 2013, the plan had 5 active members.

SHENANGO TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Shenango Township has partially complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Properly Fund Member Accounts

SHENANGO TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Member Accounts

Condition: As noted in our prior audit report, the township did not properly fund member accounts for the years 2008, 2009, and 2010. During our current audit, the township made the contributions necessary to comply with our prior audit finding; however, it was disclosed during our current audit that another employee did not receive his required contributions in 2010 and 2011 due to his 6 month probationary period being waived due to prior qualifying union membership employment.

The underfunding for the one member is illustrated below:

<u>Year</u>	<u>Weeks Worked</u>	<u>Rate Per Week</u>	<u>Contribution Due</u>	<u>Contribution Made</u>	<u>Difference</u>
2010	22	\$ 61	\$ 1,342	\$ -	\$ 1,342
2011	52	69	3,588	3,312	276
				Total	<u>\$ 1,618</u>

Criteria: The plan’s governing document, Resolution No. 2 of 2008, which adopted a separately executed plan agreement with the plan’s custodian, established the municipal weekly contribution rate at \$61 per participant for the year 2010 and \$69 per participant for the year 2011.

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

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled, or could result in granting excess benefits to participants to which they are not entitled.

Due to township’s failure to properly fund the referenced member’s account, the township must now pay interest on the delinquent contributions due.

SHENANGO TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Recommendation: We recommend that the township properly fund the referenced member's account, with interest.

We also again recommend that in the future, plan officials implement adequate internal control procedures to ensure that the member accounts are properly funded in accordance with the provisions contained in the plan's governing documents.

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

Auditor Conclusion: Compliance will be subject to verification during our next audit of the plan.

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

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 9,630	\$ 2,295
2009	6,787	4,804
2010	10,800	2,071
2011	None	17,664
2012	15,860	7,540
2013	17,865	7,095

SHENANGO TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Shenango Township Non-Uniformed Union Pension Plan
Lawrence County
1000 Willowbrook Road
New Castle, PA 16101

Mr. Russell J. Riley Chairman, Board of Township Supervisors

Mr. Albert Burick, III Secretary/Treasurer

This report is a matter of public record and is available online at www.auditorgen.state.pa.us.
Media questions about the report can be directed to the Pennsylvania Department of the Auditor
General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to:
news@auditorgen.state.pa.us.