



**SHENANGO TOWNSHIP POLICE
PENSION PLAN**

MERCER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Shenango Township
Mercer County
West Middlesex, PA 16159

We have conducted a compliance audit of the Shenango Township Police Pension Plan for the period January 1, 2010, to December 31, 2012. 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.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.

- 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 benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with 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 terms of the contractual agreement with the Pennsylvania State Association of Boroughs are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango Township Police 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.

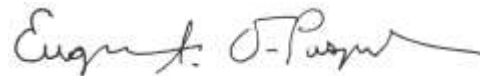
The results of our tests indicated that, in all significant respects, the Shenango Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further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

Finding – Noncompliance With Prior Audit Recommendation – Failure To
Return Unused Monies To The Commonwealth

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Shenango Township and, where appropriate, their responses have been included in the report.

July 12, 2013



EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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 Police 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943 (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1 et seq.
- Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Shenango Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 138, as amended, adopted pursuant to Act 600, and a joinder agreement with PSABMRT effective November 1, 2001.

The Shenango Township Board of Supervisors disbanded the Shenango Township Police Department effective June 30, 2004, through the adoption of Ordinance No. 150 of 2005. This ordinance resolved that the plan purchase appropriate annuity contracts from an insurer to provide the retirement benefits that were due and payable to each retired participant under the plan and each deferred vested participant under the plan and that the township obtain police services to be provided by the Southwest Mercer County Regional Police Commission.

SHENANGO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Shenango Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Return Of Unused Monies To The Commonwealth

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Failure To Return Unused Monies To The Commonwealth

Condition: As disclosed in the prior audit report, Shenango Township disbanded their police department effective June 30, 2004, and entered into an agreement to obtain police services from the Southwest Mercer County Regional Police Commission. On June 30, 2004, each active participant in the Shenango Township Police Pension Plan who was actively employed as a police officer for the township as of June 30, 2004, had their accrued benefit determined and those funds were transferred to the commission's police pension plan. In March 2005, \$379,250 was disbursed from the plan to purchase annuities to fund the pension benefits due to each of the 3 retirees of the Shenango Township Police Pension Plan; however, the plan still has an asset balance of \$254,680 as of December 31, 2012.

Criteria: Since the plan received no state aid allocations under Act 205, municipalities that have received state aid allocations pursuant to Act 120, and which do not employ at least one full-time paid police officer, must return unused funds to the Commonwealth pursuant to the provisions of Act 120, at 72 P.S. 2263.3, which states, in part:

All monies distributed under the terms hereof, that are not used for the purposes set forth herein within two years after receipt thereof by the treasurers of several cities, boroughs, towns and townships, shall be returned to the General Fund for distribution...

Cause: Plan officials felt the police pension plan assets were not required to be reimbursed to the Commonwealth because the township had not elected to disband the pension plan.

Effect: The township is improperly retaining funds that should be returned to the Commonwealth for redistribution to eligible municipalities for reimbursement of eligible pension costs.

Recommendation: We again recommend that township officials, with the assistance of their solicitor and the plan's actuary, verify that there are no outstanding liabilities that need to be satisfied from pension plan assets.

After accounting for any remaining liabilities and any portion of the plan's assets that can be attributed to prior municipal contributions, the remaining police pension plan assets should be returned to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials agreed with the finding without exception. Officials stated that they are currently working on determining the amount due to the Commonwealth and will reimburse the amount due once it is determined.

Auditor's Conclusion: Compliance with the finding recommendation will be monitored by the Department subsequent to the release of this audit report.

SHENANGO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	None	N/A
2011	None	N/A
2012	None	N/A

SHENANGO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Shenango Township Police Pension Plan
Mercer County
3439 Hubbard-Middlesex Road
West Middlesex, PA 16159

Mr. Tom Hubert Chairman, Board of Township Supervisors

Ms. Lynnett Beck Secretary

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:
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