

# LIMITED PROCEDURES ENGAGEMENT

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## Venango Township Non-Uniformed Pension Plan Erie County, Pennsylvania For the Period January 1, 2013 to December 31, 2015

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March 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  
Venango Township  
Erie County  
Wattsburg, PA 16442

We conducted a Limited Procedures Engagement (LPE) of the Venango Township Non-Uniformed Pension Plan for the period January 1, 2013 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 retirement benefits calculated for plan members who retired during the engagement 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 recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the 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, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Venango 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 later in this report:

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

Finding No. 2 – Failure To Fund Members' Accounts

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

March 10, 2017

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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VENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

On December 20, 2013, the township returned the 2011 excess state aid, in the amount of \$650, plus interest, to the Commonwealth.

Partial Compliance With Prior Audit Recommendation

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

- Receipt Of State Aid In Excess Of Entitlement

On December 20, 2013, the township returned the 2010 excess state aid, in the amount of \$2,619, plus interest, to the Commonwealth. However, plan officials failed to reconcile the amount of state aid allocated to the non-uniformed pension plan with the plan's defined contribution pension costs in the year 2016 as disclosed in the Findings and Recommendations section of this report.

VENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in our prior audit report, the township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2010. During the current engagement period, the township reimbursed \$2,619, plus interest, to the Commonwealth for the excess state aid received, however, the township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2016, as illustrated below:

State aid allocation	\$ 14,515
Actual municipal pension costs	<u>(7,458)</u>
Excess state aid	<u>\$ 7,057</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.

The plan’s governing document, Resolution No. 97-11, as amended, sets the municipal contribution rate at 10% of compensation per full-time employee.

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 and reimburse any excess state aid received to the Commonwealth, and to ensure full compliance with the prior audit recommendation.

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 2016 must be returned to the Commonwealth for redistribution.

VENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality return the \$7,057 of excess state aid received in the year 2016, plus interest, to the Commonwealth from the general fund. 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.

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

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

Auditor Conclusion: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the plan.

**Finding No. 2 – Failure To Fund Members' Accounts**

Condition: In 2014 and 2015, the township did not fully fund the accounts of its members. For 2014, a member's account is owed \$267. For 2015, the same member's account is owed \$3,492 and three other members are owed \$75 each. In addition, for 2016, the contributions were reversed between two plan members.

Criteria: The plan's governing document, Resolution No. 97-11, as amended, sets the municipal contribution rate at 10% of compensation per year per full-time employee.

Cause: In 2014 and 2015, township officials failed to follow up on contributions that were returned to the township by the plan's custodian. Also, in 2015, township officials failed to properly reconcile amounts due to members' accounts with amounts sent to the plan custodian.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.



VENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Due to the township's failure to properly fund the referenced members' accounts, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contributions due to the members' accounts for the years 2014 and 2015, with interest from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the township for examination during our next engagement of the plan.

We also recommend that township officials ensure that each member's account is correctly funded for 2016.

Furthermore, we recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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

Auditor Conclusion: Compliance will be evaluated during our next engagement of the plan.

VENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this report cites an overpayment of state aid to the township in the amount of \$7,057, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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, 321 Finance Building, Harrisburg, PA 17120.

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 7,086	None
2011	7,291	\$ 5,911
2012	13,391	2,638
2013	16,769	2,520
2014	17,882	69
2015	10,798	None

VENANGO 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. Eugene J. Krahe**  
Chairman, Board of Township Supervisors

**Mr. Mike Vogel**  
Vice-Chairman, Board of Township Supervisors

**Mr. Al Turner**  
Township Supervisor

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