

COMPLIANCE AUDIT

Conewago Township Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

January 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Township Supervisors
Conewago Township
Dauphin County
Elizabethtown, PA 17022

We have conducted a compliance audit of the Conewago 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 finding 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 finding 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.
- 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.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions made during the audit period for all five active employees employed during 2018 amounting to \$8,809, all nine active employees employed during 2019 amounting to \$6,036, all seven active employees employed during 2020 amounting to \$8,102, all seven active employees employed during 2021 amounting to \$4,826, and all seven active employees employed during 2022 amounting to \$3,270.
- We determined whether retirement benefits calculated for plan members who retired, elected to vest, or separated employment and received a lump-sum distribution during the current audit 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 monthly 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, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Conewago 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,

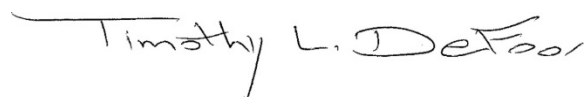
interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Conewago 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 – Late Filing Of Actuarial Valuation Report
- Finding No. 2 – Failure To Timely Fund Member Accounts
- Finding No. 3 – Untimely Deposit Of State Aid
- Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 5 – Failure To Properly Fund Member Accounts

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 Conewago 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
November 28, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Findings and Recommendations:	
Finding No. 1 – Late Filing Of Actuarial Valuation Report.....	3
Finding No. 2 – Failure To Timely Fund Member Accounts.....	4
Finding No. 3 – Untimely Deposit Of State Aid.....	5
Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	7
Finding No. 5 – Failure To Properly Fund Member Accounts.....	8
Supplementary Information.....	9
Report Distribution List.....	10

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 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 Conewago 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Conewago Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2020-1 and a separately executed plan agreement with the plan custodian effective October 1, 2020, adopted pursuant to Act 15. Prior to October 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 2013-2 and an agreement with the custodian, adopted pursuant to Act 15. The plan was established January 1, 2001. Active members are not required to contribute to the plan. The municipality was previously required to contribute 3 percent of each member's compensation to the plan, however, effective October 1, 2020, the municipality is required to contribute 4.5 percent of each member's compensation to the plan. As of December 31, 2022, the plan had four active members, three terminated members eligible for vested benefits in the future, and two retirees receiving pension benefits.

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Conewago Township has complied with the prior recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the township reimbursed \$5,153 to the Commonwealth for the excess state aid received in 2017 and 2018.

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Late Filing Of Actuarial Valuation Report

Condition: Actuarial valuation report form type A for the non-uniformed pension plan with a valuation date of January 1, 2021 was not submitted to the Municipal Pension Reporting Program (MPRP) by the March 31, 2022 deadline, as required by Act 205. The actuarial valuation report was not received by MPRP until September 5, 2023.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The untimely submission of the actuarial valuation report occurred because plan officials were not familiar with Act 205 filing deadlines.

Effect: Due to the late filing of the 2021 actuarial valuation report, the municipality’s 2022 and 2023 state aid allocations were withheld until the necessary report was filed. The 2022 state aid allocation in the amount of \$9,089 was not released until December 29, 2023, 15 months after the release of 2022 state aid to those municipalities who submitted their reports by the filing deadline. The 2023 allocation in the amount of \$6,936 was also released on December 29, 2023, 3 months after the release of 2023 state aid to those municipalities who submitted their reports by the filing deadline. Consequently, the municipality did not have its state aid available to use for pension obligations, expenses, and investment opportunities.

Recommendation: To ensure that future actuarial filing deadlines are met in a timely manner and to improve pension plan administration, we recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

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 – Failure To Timely Fund Member Accounts

Condition: In 2018, 2019, 2020, 2021, and 2022 the township failed to fund each member’s account with municipal and optional member contributions in a timely manner.

<u>Plan Year</u>	<u>Date of Deposit for Municipal and Optional Member Contributions</u>
2018	February 5, 2019
2019	June 3, 2020
2020	December 14, 2022
2021	July 25, 2022
2022	February 13, 2023

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: The plan’s governing document sets the municipal contribution rate at 4.5 percent of each member’s compensation effective October 1, 2020, and 3 percent of compensation prior to then. Members of the plan are permitted to make optional after-tax contributions in an amount not to exceed 10 percent. The plan agreement states that contribution and reporting remittance shall occur on a bi-weekly payroll period basis.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that all member and municipal contributions were deposited into the pension plan in a timely manner.

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. Late contributions may result in members missing out on interest accruals owed to their member account.

Recommendation: We recommend that the township calculate and pay the interest due to member accounts for the late deposit of member or municipal contributions. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also 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’s Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2018, 2019, 2020, and 2021 state aid allocations into the pension plan within the 30-day grace period allowed by Act 205.

The municipality received its 2018 state aid allocation in the amount of \$3,117 on September 20, 2018, but did not deposit the money into its non-uniformed pension plan until February 5, 2019.

The municipality received its 2019 state aid allocation in the amount of \$3,236 on September 18, 2019, but did not deposit the money into its non-uniformed pension plan until February 12, 2020.

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

The municipality received its 2020 state aid allocation in the amount of \$4,097 on September 29, 2020, but did not deposit the money into its non-uniformed pension plan until November 30, 2020.

The municipality received its 2021 state aid allocation in the amount of \$4,782 on September 28, 2021, but did not deposit the money into its non-uniformed pension plan until July 25, 2022.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: The 2018, 2019, 2020, and 2021 state aid was not deposited timely into the municipality's pension plan because plan officials were unaware of applicable Act 205 provisions.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30-day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the non-uniformed pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: The township failed to certify an eligible non-uniformed employee and understated payroll by \$47,594 on the Certification Form AG 385 filed in 2021. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Municipal officials did not understand the eligibility requirements for certification on the AG 385 form.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on pension costs, the township received an underpayment of state aid in the amount of \$1,428, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2021	3.0%	\$ 47,594	\$ 1,428

Although the additional state aid will be allocated to the township, the full amount of the 2021 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan’s funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

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.

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure To Properly Fund Member Accounts

Condition: The township did not fully fund the accounts of two plan members in 2022 in the amount of \$225 as illustrated below:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 796	\$ 681	\$ 115
2	2,611	2,501*	<u>110</u>
		Total	<u><u>\$ 225</u></u>

* The township remitted municipal contributions totaling \$2,501 to the plan custodian for Employee 2 for 2022. Plan statements reflect that deposit to the plan; however, the statements only reflect \$1,848 allocated to the member’s account.

Criteria: The plan’s governing document set the municipal contribution rate at 4.5 percent of each member’s compensation.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing documents. Mathematical errors were made when calculating the required contributions.

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

Furthermore, 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 year 2022, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan. We also recommend that plan officials ensure the member account for Employee 2 referenced above is properly credited for the contributions made.

We also 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’s Conclusion: Compliance will be evaluated during our next audit of the plan.

CONEWAGO TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 4,796	\$ 4,821	\$ (25)	\$ 155,866	3.09%
2015	5,160	5,184	(24)	167,994	3.09%
2016	5,280	5,279	1	173,120	3.05%
2017	5,201	3,837	1,364	171,068	2.24%
2018	4,780	4,370	410	155,339	2.81%
2019	5,584	5,584	-	171,754	3.25%
2020	8,891	8,892	(1)	258,307	3.44%
2021	11,735	11,735	-	260,340	4.51%
2022	9,730	9,505	225	***	

* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

** The Statutorily Required Contribution and the actual Contribution were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.

*** Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

CONEWAGO 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. Gary Painter
Chairman, Board of Township Supervisors

Ms. Karen Brandt
Chief Administrative Officer

Ms. Jessica Hunt
Township Secretary

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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