

# COMPLIANCE AUDIT

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## Dover Township Non-Uniformed Employees Pension Plan

York County, Pennsylvania  
For the Period  
January 1, 2017 to December 31, 2020

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June 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Board of Township Supervisors  
Dover Township  
York County  
Dover, PA 17315

We have conducted a compliance audit of the Dover Township Non-Uniformed Employees Pension Plan for the period January 1, 2017 to December 31, 2020. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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, 2015 to December 31, 2020, 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, 2015 to December 31, 2020, 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 the plan members who retired, the plan members who elected to vest, and the plan member who 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, 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.

Dover Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

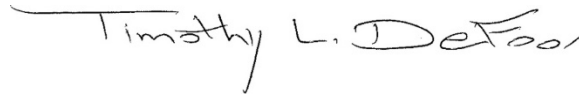
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Dover Township Non-Uniformed Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and 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 objective.

The results of our procedures indicated that, in all significant respects, the Dover Township Non-Uniformed Employees 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 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Failure To Allocate Forfeitures To Members' Account

The contents of this report were discussed with officials of Dover 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

May 28, 2021

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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.

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 Dover Township Non-Uniformed Employees 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 Dover Township Non-Uniformed Employees Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance 2013-06 and a separately executed plan agreement with the plan's custodian. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established July 19, 1973. The municipality is required to contribute 10 percent of compensation. As of December 31, 2020, the plan had 39 active members, 1 terminated member eligible for vested benefits in the future, and 2 retirees receiving pension benefits.

DOVER TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement**

Condition: The township received state aid in excess of the pension plan’s defined contribution pension costs in the years 2017, 2018 and 2019, as illustrated below:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
State aid allocation	\$ 183,530	\$ 187,357	\$ 189,400
Actual municipal pension costs	<u>(175,237)</u>	<u>(172,428)</u>	<u>(164,698)</u>
Excess state aid	<u>\$ 8,293</u>	<u>\$ 14,929</u>	<u>\$ 24,702</u>

The excess state aid remains in the general fund 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 were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs and reimburse the difference to the Commonwealth.

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 received in the years 2017, 2018 and 2019 must be returned to the Commonwealth for redistribution. 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 total excess state aid received in the years 2017, 2018 and 2019, amounting to \$47,924, to the Commonwealth from the township’s 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.

DOVER TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Furthermore, we recommend that plan officials reconcile the amount of state aid and municipal contributions allocated to the pension plan with the plan’s annual defined contribution pension costs. If there is an overpayment of state aid, it should then be reimbursed to the Commonwealth.

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

Auditor’s 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 audit report and through our next audit of the plan.

**Finding No. 2 – Failure To Allocate Forfeitures To Members’ Accounts**

Condition: In 2017, the township did not properly allocate forfeitures from terminated members’ accounts amounting to \$6,945 to the other remaining active members of the pension plan in accordance with the plan document. Similarly, during 2018 and 2019, the township did not properly determine the non-vested portion of terminated members’ accounts which should have been forfeited and allocate such forfeitures to the remaining active members in accordance with the plan document. The non-vested portion of terminated members’ accounts amounted to \$941 and \$11,046 during 2018 and 2019, respectively.

Criteria: Section No. 3.04 of the plan’s separately executed plan agreement, adopted through Ordinance No. 2013-06, states:

Forfeitures shall be determined at least once during each Plan Year. Forfeitures shall be allocated to each Active Participant as of the last day of the Plan Year. The amount allocated to each eligible person shall be equal to such Forfeitures for the Plan Year multiplied by the ratio of such person’s Annual Compensation as of such date to the total Annual Compensation of all such persons. Upon their allocation to Accounts, Forfeitures shall be deemed to be Employer Contributions.

In addition, the plan’s separately executed plan agreement defines **Forfeiture Date** as the date the Participant has a Severance of Employment. This is the date on which the Participant’s Non-vested Account will be forfeited.

Cause: Township officials were unaware of their obligation under the plan agreement to timely identify and allocate the forfeited account balances of former terminated members to the accounts of its other remaining active plan members.



DOVER TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Effect: The failure to properly identify and allocate forfeitures could result in plan members being denied benefits to which they are entitled under the plan’s governing document.

Due to the township’s failure to properly allocate the forfeitures previously, in accordance with the plan document, the township must now allocate the forfeitures to the remaining active members and include interest on the delinquent allocations.

Recommendation: We recommend that the township allocate forfeitures due to the other eligible plan members for the years 2017, 2018, and 2019, totaling \$18,932, with interest, from the date the forfeitures were known and available for distribution through the date forfeitures are actually allocated to its active plan members. 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 allocate subsequent forfeitures to eligible plan members in accordance with the plan document.

Management’s Response: Municipal officials agreed with the finding without exception and are currently working with the plan consultant to allocate the forfeitures according to the plan document.

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to comply with the recommendation above. Compliance will be evaluated during our next audit of the plan.

DOVER TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of \$47,924, 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.

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

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 152,913	\$ 16,363
2016	166,237	2,592
2017	175,237	None
2018	172,428	None
2019	164,698	None
2020	167,410	\$ 13,453

DOVER TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Steve Stefanowicz**  
Chairman, Board of Township Supervisors

**Ms. Laurel Oswalt**  
Chief Administrative Officer

**Ms. Dawn Strausbaugh**  
Township Administrator

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).