

# LIMITED PROCEDURES ENGAGEMENT

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## Hopewell Township Non-Uniformed Pension Plan Bedford County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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April 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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We conducted a Limited Procedures Engagement (LPE) of the Hopewell Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016 and 2018, 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 Hopewell 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 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Fund Member's Account
- Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 4 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Finding Nos. 1 and 2 contained in this report repeat conditions that were cited in our previous audit report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this report.

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 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 Hopewell 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.

April 2, 2019

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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HOPEWELL TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

Hopewell Township has partially complied with the prior audit recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

On November 10, 2015, the township returned \$2,689 to the Commonwealth for the excess state aid received in 2012; however, the township again failed to reconcile the township's annual state aid allocation with the plan's annual defined contribution pension costs during the current engagement period and reimburse any excess state aid received to the Commonwealth, as further discussed in the Finding No. 1 of this report; and

- Failure To Fully Fund Member's Account

On July 14, 2015, the township deposited \$1,431 into a member's account for the outstanding amount that was due from 2013. However, a similar condition occurred during the current engagement period. The township again failed to implement adequate procedures to ensure all members' accounts were properly funded during the current engagement period, as further discussed in Finding No. 2 of this report.

HOPEWELL 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 the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by returning \$2,689 to the Commonwealth for the excess state aid received in 2012; however, a similar condition occurred during the current engagement period. The township again received state aid in excess of the non-uniformed pension plan’s defined contribution pension cost in the year 2016, as illustrated below:

State aid allocation	\$ 9,796
Actual municipal pension costs	<u>(6,873)</u>
Excess state aid	<u>\$ 2,923</u>

Criteria: As previously cited, 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 again 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 ensure compliance with the prior 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.

Recommendation: We recommend that the municipality return the \$2,923 of excess state aid received in the year 2016 to the Commonwealth from the non-uniformed pension plan. 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.

HOPEWELL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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

Management’s Response: On March 14, 2019, the township provided the following written response to this finding:

In response to the Audit findings, Finding No. 1 should be worded differently. It should say complied with. The township complied with the finding from the previous audit. This should be a new finding for 2016. Also, we do not [*Auditor Note: the word “not” was missing from the written response provided, but was conveyed earlier to the auditor previously during the exit conference.*] agree with the recommendation to pay interest on the 2016 finding. The audit was not complete in a timely manner by your department. We would also inquiry (sic) if the Township didn’t receive enough state aid from previous years, would you department pay us the difference plan interest???

Auditor’s Conclusion: As stated in the Condition above and the Status of Prior Findings section of this report, we acknowledged the township’s partial compliance with the prior recommendation for the township’s return of \$2,689 to the Commonwealth, including interest, for the excess state aid received in 2012. However, there was an additional recommendation contained in the prior report with which plan officials failed to fully comply which was to reconcile the township’s annual state aid allocation and municipal contributions made to the pension plan with the plan’s annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth. However, plan officials did not perform such annual reconciliation resulting in the Condition noted above. As such, the finding remains as stated and the township’s compliance with the finding recommendations will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

**Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Fund Member’s Account**

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by depositing into a member’s account the outstanding amount that was due from 2013. However, a similar condition occurred during the current period. The township again failed to properly fund two member’s accounts in the amounts of \$973 and \$668, respectively, during 2016. It was noted that the 2<sup>nd</sup> quarter contribution for 2016 in the amount of \$1,641 was not made for these members resulting in the funding deficiency.



HOPEWELL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: The municipal contribution rate is set at 10 percent of compensation per employee, as adopted by a motion in the minutes of a February 9, 2009 board of township supervisor’s meeting.

Cause: Township officials again failed to implement adequate internal control procedures to ensure that required contributions are made to the pension plan and members’ accounts are properly and fully funded to ensure compliance with the prior recommendation.

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

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

Recommendation: We recommend that the township deposit the outstanding contributions due to the two plan members for the year 2016, with interest, from the date the quarterly deposit of municipal contributions was due to be made during 2016 to the date of the actual deposit of the amount in arrears. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we again recommend that in the future, township officials establish adequate internal control procedures to ensure that all plan member’s accounts are properly funded.

Management’s Response: On March 14, 2019, the township provided the following written response to this finding:

Same response as above in reference of the partial compliance and the new finding.  
However, we do agree with the new finding.

Auditor’s Conclusion: As stated in the Condition above and the Status of Prior Findings section of this report, we acknowledged the township’s partial compliance with the prior recommendation by depositing the outstanding \$1,431 into the member’s account for the year 2013. However, there was an additional recommendation contained in the prior report with which plan officials failed to fully comply, which was to establish adequate procedures to ensure all plan member’s accounts are properly funded in the future. However, plan officials did not implement adequate procedures resulting in the Condition noted above. As such, the finding remains as stated and compliance will be evaluated during our next engagement of the pension plan.

HOPEWELL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The township certified two ineligible non-uniformed employees and overstated payroll by \$9,989 on the Certification Form AG 385 filed in 2017. Although municipal records disclosed that these two employees began full-time employment on June 15, 2016, these individuals were not eligible for participation in the township’s pension plan during 2016 according to the plan’s governing document. The data contained on this certification form is based on prior calendar year information.

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

The townships separately executed plan agreement, effective January 1, 2015, defines an employees’ eligibility for participation in the pension plan, as follows:

Part II, Section A(7) Eligibility Requirements states, in part:

Minimum of 6 months of service.

In addition, Part II, Section A(9) Entry Date states, in part:

An Employee who satisfies the eligibility requirement enters the Plan on the Entry Date; Semi-annual periods of January 1 or the date 6 months later, coincident with or next following satisfaction of the eligibility requirements.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified in accordance with its own governing plan document.

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 plan. Because the township’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2017	10.0%	\$ 9,989	\$ 998

HOPEWELL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan for 2017; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$998, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, 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. A copy of the interest calculation must be submitted along with the check.

We also 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.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: On March 14, 2019, the township provided the following written response to this finding:

In our opinion, the township pension plan agreement is hard to understand as written for this particular finding. We will be addressing this in the near future and plan to have this written with more clarity.

Auditor's Conclusion: 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 pension plan.

HOPEWELL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: The township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan according to the plan document, as illustrated below:

	<u>2015</u>	<u>2017</u>
Actual municipal pension costs	\$ 9,796	\$ 11,037
Forfeitures available	<u>(1,983)</u>	<u>(2,086)</u>
Adjusted actual municipal pension costs	7,813	8,951
State aid allocated	<u>(7,013)</u>	<u>(7,132)</u>
Municipal contributions required to fund plan	<u>\$ 800</u>	<u>\$1,819</u>
Actual municipal contributions made	\$ 2,783	\$ 3,905
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>
Excess municipal contributions	<u>\$ 1,983</u>	<u>\$ 2,086</u>

Criteria: Part II, Section E1, E5 and 6(d) of the townships separately executed plan agreement, effective January 1, 2015 states, in part:

Vesting Schedule - 100% vesting after 3 years of service;

Forfeitures (Section 2.4.4) - When a participant terminates, the non-vested portion of his account is treated as a forfeiture, as indicated below.

The forfeiture is determined as of the last day of the plan year in which the distribution occurs.

Application of Forfeitures - Reduce Employer Contributions, at the discretion of the Plan Administrator.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

HOPEWELL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Cause: The municipality failed to identify and liquidate terminated-employees' non-vested, forfeited accounts in accordance with the plan document and allocate these funds towards eligible pension costs prior to depositing additional municipal funds to the pension plan that were not deemed necessary. In addition, the township failed to establish adequate internal control procedures to annually reconcile the township's state aid allocation, available forfeitures and municipal contributions with the plan's actual annual defined contribution pension costs to ensure that municipal contributions did not exceed required contributions outlined in the plan's governing document.

Effect: By failing to identify and liquidate terminated employees' non-vested, forfeited accounts in accordance with the plan document and making municipal contributions in excess of plan requirements from township general funds, general municipal taxpayer funds are inappropriately expended on unnecessary excess pension costs instead of furthering other eligible general municipal obligations of the township.

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions remaining in the terminated, non-vested, former members' accounts at this time.

Recommendation: We recommend that the township, with the assistance of its pension plan consultant, liquidate the terminated, non-vested, former members' accounts in accordance with the plan document and reimburse these funds to the township, accordingly.

We also recommend that, in the future, plan officials establish adequate procedures to timely identify terminated, non-vested former employees' forfeited accounts and annually reconcile the amount of state aid allocated to the pension plan, along with available plan forfeitures and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs prior to contributing additional general municipal funds in accordance with the plan document.

Management's Response: On March 14, 2019, the township provided the following written response to this finding:

The Township Secretary and Township Supervisors were not aware of this requirement as written in the pension plan agreement. We will work with our pension representatives to correct this finding.

Auditor's Conclusion: Based on the management response, it appears the township intends to comply with the finding recommendation. Compliance will be evaluated during our next engagement of the pension plan.

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 7,718	None
2013	5,294	\$ 2,832
2014	8,127	None
2015	7,013	2,783
2016	9,796	None
2017	7,132	3,905

HOPEWELL 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. David R. Donaldson**  
Chairman, Board of Township Supervisors

**Mr. Ronald G. Guyton**  
Township Supervisor

**Mr. Damian J. Corle**  
Township Supervisor

**Ms. Melissa J. Douglas**  
Township Secretary

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