

COMPLIANCE AUDIT

Paradise Township Non-Uniformed Employees Pension Plan

York County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2021

July 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Paradise Township
York County
Abbottstown, PA 17301

We have conducted a compliance audit of the Paradise Township Non-Uniformed Employees Pension Plan for the period January 1, 2017 to December 31, 2021. 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 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 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:

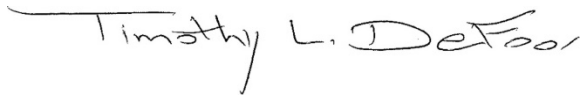
- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit. State aid allocations that were deposited into the pension plan for the years ended December 31, 2016 to December 31, 2021, 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, 2016 to December 31, 2021, 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 member who retired 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 due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 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 Paradise 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 objectives.

The results of our procedures indicated that, in all significant respects, the Paradise 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 finding further discussed later in this report:

Finding – Failure To Properly Fund Members’ Accounts

The contents of this report were discussed with officials of Paradise 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
June 24, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Failure To Properly Fund Members’ Accounts	3
Summary of Deposited State Aid and Employer Contributions.....	5
Report Distribution List	6

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 Paradise 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Paradise Township Non-Uniformed Employees Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a Resolution No. 95-4, as amended, and a separately executed plan agreement with the plan's custodian. The plan was established January 1, 1992. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each participant's compensation. As of December 31, 2021, the plan had five active members and one terminated member eligible for vested benefits in the future.

PARADISE TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

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

- Failure to Appoint A Chief Administrative Officer

During the current audit period, township officials formally appointed a chief administrative officer for its pension plan by resolution.

PARADISE TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Members’ Accounts

Condition: The township paid excess municipal contributions to the accounts of three members and did not fully fund the account of one member in 2018. Furthermore, the township paid excess municipal contributions to one member in 2019, as illustrated below:

2018:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
07/01/2007	\$ 5,515	\$ 5,723	\$ 208
01/28/2013	3,948	4,055	107
03/03/2014	2,771	2,876	105
08/17/2016	4,155	4,107	(48)

2019:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
03/03/2014	\$ 2,853	\$ 2,961	\$ 108

Criteria: The plan’s separately executed plan agreement at Section 24(a) set the employer contribution rate at 10 percent of each participant’s compensation for each plan year.

Cause: The township failed to establish adequate internal control procedures to ensure that the plan members’ accounts were properly funded. Some of the discrepancies were due to the township contributing on township supervisor’s pay and tax collector commissions which should not be contributed upon.

Effect: The failure to properly allocate contributions to the members’ accounts has resulted in certain plan members receiving benefits in excess of those to which they are entitled, and other members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document.

PARADISE TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

We also recommend that plan officials implement adequate internal control procedures to ensure that the participants' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 4,375	\$ 7,439
2017	4,588	13,757
2018	4,684	17,179
2019	5,120	17,019
2020	4,924	14,942
2021	4,797	22,705

Note: In 2018, the township met the plan's \$21,769 funding requirement through the deposit of \$4,684 in state aid, \$17,179 in employer contributions, and the allocation of \$278 in terminated employee forfeitures.

PARADISE 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. Lance Biesecker
Chairman, Board of Township Supervisors

Mr. Elwood Miller
Township Administrator

This report is a matter of public record and is available online at 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.