

LIMITED PROCEDURES ENGAGEMENT

Royalton Borough Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

April 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Royalton Borough
Dauphin County
Middletown, PA 17057

We conducted a Limited Procedures Engagement (LPE) of the Royalton Borough 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 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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 Royalton Borough 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation –Receipt Of
State Aid In Excess Of Entitlement

The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been fully corrected by borough officials. We are concerned by the borough's failure to fully correct this previously reported audit finding and strongly encourage timely implementation of the recommendation 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 borough 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 Royalton Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.



EUGENE A. DEPASQUALE
Auditor General

April 10, 2018

CONTENTS

	<u>Page</u>
Status of Prior Findings	1
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement.....	2
Summary of Deposited State Aid and Employer Contributions	4
Report Distribution List	5

ROYALTON BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Royalton Borough has complied with the prior audit recommendations concerning the following:

- Failure to Properly Fund Member's Accounts.

The borough deposited the outstanding contributions due to the members' accounts for the year 2012, with interest.

Partial Compliance With Prior Audit Recommendation

Royalton Borough has partially complied with the prior audit recommendation concerning the following:

- Receipt of State Aid in Excess of Entitlement

During the current engagement period, the borough returned the excess state aid received in the year 2011 to the Commonwealth. The borough also amended and restated the plan's governing document to remove the limitation (formerly 1,000 hours of required service) for sharing in the contributions provision which addressed the excess state aid received in the year 2013. However, plan officials again failed to annually reconcile the amount of state aid allocated to the pension plan with the pension plan's defined contribution pension costs for the years 2014 and 2016, as further discussed in the Finding and Recommendation section of this report.

ROYALTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – 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, although the borough returned the excess state aid received in the year 2011 to the Commonwealth and amended and restated the plan's governing document to remove the limitation for sharing in the contributions provision to address the excess state aid received in the year 2013, a similar condition occurred during the current engagement period. Plan officials again failed to annually reconcile the amount of state aid allocated to the pension plan with the pension plan's defined contribution pension costs for the years 2014 and 2016, as illustrated below:

	<u>2014</u>	<u>2016</u>
State aid allocation	\$ 10,567	\$ 10,083
Less: Actual municipal pension costs	<u>(9,296)</u>	<u>(9,880)</u>
Excess state aid	<u>\$ 1,271</u>	<u>\$ 203</u>

In addition, as of the date of this report, this excess state aid remained in the borough's general fund.

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 again failed to establish adequate internal control procedures to reconcile the borough's state aid allocation with the plan's actual defined contribution pension costs.

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 years 2014 and 2016 must be returned to the Commonwealth for redistribution.

ROYALTON BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality return the \$1,474 of excess state aid received in the year 2014 and 2016 to the Commonwealth from their 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 borough'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: Subsequent to our exit conference, municipal officials returned the excess state aid received in the years 2014 and 2016, with interest, on March 16, 2018 to the Commonwealth from their general fund.

Auditor's Conclusion: Based on the management response, it appears municipal officials have partially complied with the finding recommendation. Compliance will be evaluated during our next engagement of the plan.

ROYALTON BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 8,784	\$ 1,906
2013	10,906	1,942
2014	9,296	None
2015	8,406	2,507
2016	9,880	None
2017	8,620	3,990

ROYALTON BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Solomon L. Swartz, III
Mayor

Mr. Tilden J. Sides
Council President

Ms. Amy Burrell
Secretary/Treasurer

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.