

COMPLIANCE AUDIT

Shenango Township Police Pension Plan Mercer County, Pennsylvania For the Period January 1, 2018 to December 31, 2019

April 2021



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
Shenango Township
Mercer County
West Middlesex, PA 16159

We have conducted a compliance audit of the Shenango Township Police Pension Plan for the period January 1, 2018 to December 31, 2019. 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.

- 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

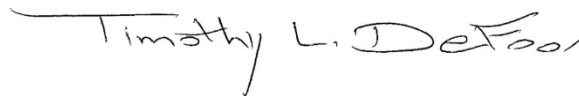
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Shenango Township Police 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 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid
- Finding No. 2 – Untimely Deposit Of State Aid
- Finding No. 3 – Failure To Properly Determine And Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 4 – Failure To File Actuarial Valuation Report
- Finding No. 5 – Failure To Adopt Plan Document In Accordance With Act 600

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio was 45.6% as of January 1, 2017**, which is the most recent data available. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Shenango 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 flourish at the beginning.

Timothy L. DeFoor
Auditor General

March 5, 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 Shenango Township Police 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Shenango Township Police Pension Plan is a single-employer defined benefit pension plan, locally controlled by the provisions of Ordinance No. 170 of 2015, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established January 1, 2015. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2019, the plan had 11 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits from the plan.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The township failed to certify an eligible non-uniformed employee on the Certification Form AG 385 filed in 2019. The non-uniformed employee was hired June 18, 2018 and, therefore, met the criteria for certification on the Certification Form AG 385 filed in 2019. The data contained on this certification form is based on prior calendar year information. In addition, it was noted that the township inadvertently received an allocation of state aid in 2016 attributable to its newly established police pension plan prior to the plan’s eligibility to participate in the state aid program according to Act 205.

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.

In addition, Section 402(e)(2) of Act 205 requires a plan to be maintained (funded) by the municipality for at least three years prior to becoming eligible for state aid.

Cause: The township lacked adequate internal control procedures to ensure that information submitted on the AG 385 Form was accurate and to timely identify the excess state aid received in 2016 that was attributed to its police pension plan, which was established on January 1, 2015 and was therefore not eligible for participation in the state aid program until 2018.

Effect: The data submitted on the 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 in 2019, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2019	Non-Uniformed	11.14%	\$ 19,765	\$ 2,202

In addition, state aid allocated to the township in 2016 attributable to the police pension plan prior to the plan’s eligibility for state aid amounted to \$43,746. Therefore, the net overpayment of state aid to the township totaled \$41,544.

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$41,544, 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.

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 pension plan.

Finding No. 2 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2017, 2018, and 2019 state aid allocations into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2017, 2018, and 2019 state aid allocations in the amounts of \$22,941, \$98,372, and \$122,507, respectively, on September 27, 2017, September 20, 2018, and September 18, 2019, respectively, but did not deposit the money into its pension plans until December 30, 2020 after we notified plan officials of the issue during the audit.

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 funds or the alternate funding mechanisms applicable to the pension plans.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Township officials stated that they prepared and signed checks from the township’s general fund to deposit the state aid allocations into the pension plans each year, however, due to a lack of internal control procedures, municipal officials failed to mail the checks to the plan custodian for deposit.

Effect: Although the state aid was ultimately deposited into the plans in December 2020, the interest earned beyond the 30 day grace period was not deposited into the plans. 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 pension plans 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.

Finding No. 3 – Failure To Properly Determine And Pay The Minimum Municipal Obligation Of The Plan

Condition: The township established a police pension plan effective January 1, 2015, however, municipal officials did not pay the minimum municipal obligation (MMO) of the police pension plan for the years 2015, 2016, and 2017. In addition, the MMO prepared by the municipality for the year 2017 included incorrect member contribution estimates. Based upon an estimate prepared by this department, the municipality has unpaid MMOs of \$40,251, \$40,251, and \$64,653 for the years 2015, 2016, and 2017, respectively.

Furthermore, plan officials did not timely prepare the 2019 MMO of the police pension plan, have not prepared the MMOs of the plan for the years 2020 and 2021, and did not pay the 2018 and 2019 MMOs of the plan until December 2020.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Additionally, Section 402(e)(2) of Act 205 states, in part:

If a plan is established after December 31, 1984, the plan is required to be maintained by the municipality for at least three plan years prior to becoming eligible for state aid.

Cause: Plan officials did not comply with the Act 205 requirements due to a lack of internal control procedures and a lack of communication within the township.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to pay the 2015, 2016, 2017, 2018, 2019, and 2020 MMOs by the respective December 31, deadlines, the municipality must add the MMO balances to the current year's MMO and include interest, as required by Act 205.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality pay the MMOs due to the police pension plan for the years 2015, 2016, and 2017, with interest, in accordance with Section 302(e) of Act 205. We also recommend that the municipality pay interest due to the plan for the late deposit of the 2018 and 2019 MMOs. Additionally, we recommend that the municipality prepare the MMO calculations for the years 2020 and 2021, pay the 2020 MMO, with interest, in accordance with Section 302(e) of Act 205, and pay the 2021 MMO by the December 31, 2021 deadline. A copy of the interest calculations must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure future MMOs are properly determined and paid timely to the plan.

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 pension plan.

Finding No. 4 – Failure To File Actuarial Valuation Report

Condition: Actuarial valuation report form C, for the police pension plan with a valuation date of January 1, 2019, was not submitted to the Municipal Pension Reporting Program (formerly the Public Employee Retirement Commission) by the March 31, 2020 deadline, as required by Act 205 and remained delinquent at the completion of our audit fieldwork.

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.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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.

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.

Cause: The failure to file the necessary actuarial valuation report occurred because the township lacked adequate internal control procedures and proper communication.

Effect: Data from the January 1, 2019 Act 205 actuarial valuation reports is necessary to calculate the township's 2020 state aid allocation; therefore, the township's 2020 state aid allocation cannot be calculated and released until the necessary reports are filed for both the police and non-uniformed pension plans. In addition, the township may receive less state aid than it would have received had the reports been filed in a timely manner.

Recommendation: We recommend that the municipality take immediate action to complete the January 1, 2019 Act 205 actuarial valuation report which was due by March 31, 2020 and submit it to the Municipal Pension Reporting Program. By submitting the report as soon as possible, the municipality can minimize the length of time the pension aid will be withheld due to the delinquent filing of the required report.

Furthermore, to insure that future actuarial filing deadlines are met 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.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure To Adopt Plan Document In Accordance With Act 600

Condition: The township passed Ordinance No. 170 of 2015 establishing a police pension plan effective January 1, 2015. However, the terms, provisions, and conditions of the police pension plan were not stated in a separately executed plan agreement.

Criteria: Section 1(a)(1) and (2) of Act 600 states, in part:

- (1) Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund or pension annuity to be maintained by a charge against each member of the police force, by annual appropriations made by the borough, town, township or regional police department...
- (2) Such fund shall be under the direction of the governing body of the borough, town, township or regional police department, and applied under such regulations as such governing body, by ordinance or resolution, may prescribe for the benefit of such members of the police force...

Cause: Township officials were under the impression that the plan document from a previously disbanded police pension plan could be used as the current plan document.

Effect: The failure to adopt a plan document could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We recommend that municipal officials take appropriate action to formally prepare and adopt, by ordinance, the plan's benefit provisions in a separately executed plan agreement.

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.

SHENANGO TOWNSHIP POLICE 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 \$41,544, 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.

In addition, a condition such as that reported by Finding No. 3 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

SHENANGO TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2015, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-15	\$ 29,619	\$ 115,788	\$ 86,169	25.6%
01-01-17	43,376	95,121	51,745	45.6%

SHENANGO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

SHENANGO TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 40,251	0.0%
2016	40,251	0.0%
2017	64,653	0.0%
2018	75,567	100.0%
2019	89,351	111.4%

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data was not yet available, this will be done prospectively.

SHENANGO TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases *	4.75%
Cost-of-living adjustments	None assumed

*Includes inflation at 2.75%

SHENANGO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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