

# COMPLIANCE AUDIT

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## South Hanover Township Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

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February 2024



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  
South Hanover Township  
Dauphin County  
Hershey, PA 17033

We have conducted a compliance audit of the South Hanover Township Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2022. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings 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.
- 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 by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether benefits calculated for a 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 of the benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actual 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.

The South Hanover Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 South Hanover Township Non-Uniformed 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.

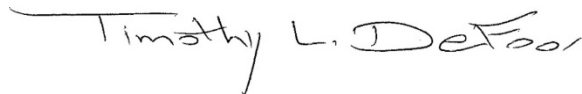
The results of our procedures indicated that, in all significant respects, the South Hanover Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made in Excess Of Contributions Required To Fund The Plan
- Finding No. 3 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has partially been corrected by township officials. We are concerned by the township's failure to fully correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 South Hanover 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  
January 31, 2024

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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 two 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 South Hanover Township Non-Uniformed 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The South Hanover Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 9-2020, and two separately executed re-stated plan agreements with the plan custodian (*one for employees with an employment commencement date or re-employment date on or after January 1, 2012 and another for employees with an employment commencement date or re-employment date on or before December 31, 2011*), effective September 1, 2020, adopted pursuant to Act 15. Prior to September 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 5-2012, and a separately executed plan agreement with the custodian, effective January 1, 2013, adopted pursuant to Act 15. The plan was established January 1, 1990. Active members are not required to contribute to the plan but may optionally contribute an amount not to exceed 20 percent of compensation to the plan. The municipality is required to contribute seven and one-half percent of each member's compensation. As of December 31, 2022, the plan had eight active members and two terminated members eligible for vested benefits in the future.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

South Hanover Township has partially complied with the prior recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Although the municipality received reimbursement for the prior state aid underpayment, the township again failed to comply with the instructions that accompany Certification Form AG 385 in accurately reporting the required pension data, as further discussed in the Findings and Recommendations section of this report.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: As disclosed in the Status of Prior Finding section of this report, the township again failed to comply with the instructions that accompany Certification Form AG 385 in accurately reporting the required pension data, The township certified two ineligible employees and overstated payroll by \$91,926 on the Certification Form AG 385 filed in 2020. These individuals were recently hired but had not met the eligibility requirements for participation in the plan and therefore, were not eligible for certification in accordance with Act 205. The data contained on this certification form is based on prior calendar year information.

Criteria: As previously disclosed, pursuant to Section 402(e)(2) of Act 205, 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.

Section 2.01 of Article II of the plan agreement adopted pursuant to Ordinance No. 9-2020, prescribes a membership eligibility date as the date on which the Employee completes 12 months of Eligibility Service.

Cause: Plan officials inadvertently certified the two employees who were not participating members of the pension plan during the certification period and the township lacked adequate procedures to timely identify the error prior to submission.

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>
2020	7.50%	\$ 91,926	\$ 6,894

In addition, the township used a portion of the overpayment of state aid to pay the pension costs due to the pension plan; therefore, if reimbursement to the Commonwealth is made from the pension plan, the plan’s pension cost will not be fully paid.



SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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 return \$6,894 of excess state aid received in the year 2020 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 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, the township follow participant eligibility requirements of its pension plan and establish adequate internal control procedures, such as having at least two individuals 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.

Further, since the township used a portion of the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the pension plan, if reimbursement to the Commonwealth is made from 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: 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.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions  
Made in Excess Of Contributions Required To Fund The Plan**

Condition: The township received state aid in excess of the pension plan’s defined contribution pension costs for the years 2020, 2021 and 2022, and also made municipal contributions in excess of those required to fund the plan during the year 2021, as illustrated below:

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Actual municipal pension costs	\$ 22,127	\$ 21,163	\$ 29,053
Less: Forfeiture available	<u>-</u>	<u>(7,007)</u>	<u>(21,155)</u>
Adjusted actual municipal pension costs	<u>\$ 22,127</u>	<u>\$ 14,156</u>	<u>\$ 7,898</u>
State aid received	<u>(24,673)</u>	<u>(26,377)</u>	<u>(19,896)</u>
Excess state aid received*	<u>2,546</u>	<u>12,221</u>	<u>11,998</u>
Actual municipal contributions made	<u>-</u>	<u>14,156</u>	<u>-</u>
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>	<u>-</u>
Excess municipal contributions	<u>\$ -</u>	<u>\$ 14,156</u>	<u>\$ -</u>

\* - *Excess state aid amounting to \$2,156 (\$1,458 for 2020 and \$698 for 2022) remained in the general fund as of completion of fieldwork procedures.*

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.

In addition, Section 3.01 *Municipal Contributions - Contribution Amount* of the separately executed plan agreement states:

Required Municipal Contribution: an amount equal to seven and five-tenth percent (7.50%) of each Member’s Compensation.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Further, Sections 3.03 *Time of Payment of Contribution* states:

At the same time and frequency of Member's contributions as specified in Section 4.01 or Section 4.02 (*on a payroll period basis per monthly period*).

Cause: Plan officials indicated that although annual reconciliations of contributions were attempted for the years 2020, 2021 and 2022, the township did not receive responses to its requests for the return of excess state aid from the plan custodian. Additionally, the township did not receive timely annual account statements from the custodian to aid in accurately reconciling the township's annual state aid allocations, available forfeitures for reducing pension costs, and the municipal contributions 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 total overpayment of state aid in the years 2020, 2021, and 2022, in the total amount of \$24,219 (*\$26,765 less \$2,546 excess state aid for 2020 previously disclosed in Finding No. 1*), must be returned to the Commonwealth for redistribution.

In addition, as a result of the township allocating excess state aid, making excess municipal contributions, and failing to use available forfeitures towards their 2021 and 2022 pension costs, an unallocated reserve fund in the amount of \$48,890 existed as of December 31, 2022.

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 during the audit period, \$24,219, 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 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.

We also recommend that the township liquidate the unallocated reserve fund maintained by the pension plan by transferring the assets which represent excess municipal contributions to the township's general fund.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Furthermore, we again recommend that, in the future, plan officials reconcile the township’s annual state aid allocation, along with available forfeitures, 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: The township originally provided the following in response to the initial draft disclosure:

We agree with the amounts of excess state aid as stated in the finding. However, we disagree with the description of the conditions that prevented the Township from timely completion of the reconciliations cited in the finding.

After receiving a revised copy of the disclosure, the township provided the following additional response:

We very much appreciate the revisions to the text in the “Condition” paragraph and the “Cause” paragraph of the Revised Finding 3. (*Auditor’s Comment: The findings were renumbered from their original presentation during the review process and now presented as Finding No. 2 of this report.*) The revisions accurately state the circumstances faced by the Township that negatively affected the ability of the Township to comply with Act 205.

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.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid**

Condition: Actuarial valuation report Form Type A, for the pension plan, with a valuation date of January 1, 2019, submitted to the Municipal Pension Reporting Program (MPRP), contained incorrect information. The township incorrectly reported the municipal contribution rate as eight percent of compensation as a percentage of payroll at Step 3 when the actual rate of municipal contributions was seven and one-half percent according to the plan document.

Criteria: Section 9.1(a) Municipality Contributions of Article IX of the plan's governing document in effect at the time of report submission, states:

The Municipality shall contribute seven and five tenths percent (7.5%) of each Member's Compensation in accordance with the Board's policy regarding the treatment of member contributions.

In addition, Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: The discrepancy in the data submitted to the MPRP occurred because plan officials did not verify that the information was consistent with the plan's governing documents and the township lacked adequate procedures to timely identify the error prior to submission.

Effect: Because the municipality's state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in the municipality receiving state aid allocations for the years 2020 and 2021 incorrectly based on a normal cost percentage of eight percent, instead of seven and one-half percent. As a result, the township received excess state aid, calculated as follows:

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll</u>	<u>State Aid Entitlement</u>	<u>State Aid Received</u>	<u>Excess State Aid</u>
2020	7.50%	\$ 308,410	\$ 23,131	\$ 24,673	\$ 1,542
2021	7.50%	329,713	<u>24,728</u>	<u>26,377</u>	<u>1,649</u>
		Total	<u>\$ 47,859</u>	<u>\$ 51,050</u>	<u>\$ 3,191</u>

Recommendation: Since the excess state aid identified in the above *Effect* is reflected in excess state aid amounts previously disclosed in *Finding Nos. 1 and 2* of this report, no additional reimbursement to the Commonwealth is required regarding this issue. However, we recommend that, in the future, plan officials review and verify all information submitted to the MPRP so that future actuarial valuation reports properly reflect the status of the pension plan.

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.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 2 contained in this audit report cite a total overpayment of state aid to the township in the amount of \$31,113, plus interest. Conditions of this nature may lead to a total withholding of state aid in the future unless those findings are 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.

SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 20,630	\$ 18,330	\$ 2,300	\$ 273,200	6.71%
2015	23,332	23,182	150	308,968	7.50%
2016	26,852	26,853	(1)	356,171	7.54%
2017	24,702	24,701	1	327,205	7.55%
2018	16,617	23,786	(7,169)	219,252	10.83%
2019	14,497	(44)	14,541	191,252	-0.02%
2020	22,325	22,428	(103)	295,683	7.59%
2021	21,393	40,763	(19,370)	282,573	14.43%
2022	29,295	29,295	-	387,666	7.56%

\* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

\*\* The SRC and the actual Contribution in Relation to the SRC were provided by the plan custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.



SOUTH HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
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