

LIMITED PROCEDURES ENGAGEMENT

St. Thomas Township Non-Uniformed Pension Plan Franklin County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

December 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
St. Thomas Township
Franklin County
Chambersburg, PA 17202

We conducted a Limited Procedures Engagement (LPE) of the St. Thomas 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 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 benefits 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 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.
- Whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the St. Thomas 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 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

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 contents of this report were discussed with officials of St. Thomas 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.



EUGENE A. DEPASQUALE
Auditor General

November 15, 2018

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ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan's defined contribution pension costs in the years 2014 and 2017, as illustrated below:

	<u>2014</u>	<u>2017</u>
State aid allocation	\$ 11,475	\$ 11,742
Actual municipal pension costs	<u>(11,381)</u>	<u>(11,259)</u>
Excess state aid	<u>\$ 94</u>	<u>\$ 483</u>

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 failed to establish adequate internal control procedures to reconcile the township'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 2017 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$577 of excess state aid received in the years 2014 and 2017 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.

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we 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: Municipal officials agreed with the finding without exception.

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.

Finding No. 2 – 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, as illustrated below:

	<u>2014</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Actual municipal pension Costs	\$ 11,381	\$ 12,242	\$ 11,259	\$ 34,882
State aid allocated*	<u>(11,381)</u>	<u>(11,472)</u>	<u>(11,259)</u>	<u>(34,112)</u>
Municipal contributions required to fund plan	<u>\$ -</u>	<u>\$ 770</u>	<u>\$ -</u>	<u>\$ 770</u>
Actual municipal contributions made	\$ 1,200	\$ 1,995	\$ 1,200	\$ 4,395
Municipal contributions required to fund plan	<u>(-)</u>	<u>(770)</u>	<u>(-)</u>	<u>(770)</u>
Excess municipal contributions	<u>\$ 1,200</u>	<u>\$ 1,225</u>	<u>\$ 1,200</u>	<u>\$ 3,625</u>

** State aid shown in table above is presented net of state aid in excess of pension costs identified in Finding No. 1 of this report.*

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section IA of Ordinance No. 133 states, in part:

...the plan shall be financed by periodic payments made by the municipality in the amount of six and one-half percent (6½%) of each participant's compensation.

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.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund in the amount of \$7,729 as of January 1, 2014 increased to an unallocated reserve fund amounting to \$10,338 as of December 31, 2017.

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 maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the township liquidate the remaining unallocated reserve fund maintained by the non-uniformed pension plan (*after the return of \$577 in excess state to the Commonwealth as noted in Finding No. 1 of this report*) by transferring the assets which represent non-state aid funds to the township's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

ST. THOMAS TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 10,401	\$ 694
2013	10,595	1,380
2014	11,475	1,200
2015	10,881	1,091
2016	11,472	1,995
2017	11,742	1,200

ST. THOMAS 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. Timothy Sollenberger
Chairman, Board of Township Supervisors

Ms. Susan Zimmerman
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.