

LIMITED PROCEDURES ENGAGEMENT

Stewart Township Non-Uniformed Pension Plan Fayette 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
Stewart Township
Fayette County
Mill Run, PA 15464

We conducted a Limited Procedures Engagement (LPE) of the Stewart 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 municipal officials took appropriate corrective action to address the finding 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 monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Stewart 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 finding further discussed later in this report:

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

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 Stewart 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.

December 12, 2018



EUGENE A. DEPASQUALE
Auditor General

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STEWART TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Stewart Township has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the engagement period, the township refunded \$1,386 to the Commonwealth for the excess state aid received for the years 2011, 2012, and 2013; however, a similar condition occurred during the current engagement period. The township again failed to reconcile the township's annual state aid allocation with the plan's annual defined contribution pension costs attributable to full-time members.

STEWART TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATIONS

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

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior audit recommendation by reimbursing \$1,386 to the Commonwealth for the excess state aid received in 2011, 2012, and 2013; however, a similar condition occurred during and subsequent to the current engagement period. The township again failed to reconcile the township's annual state aid allocations with the plan's annual defined contribution pension costs for full-time plan members in the years 2015, 2016, 2017, and 2018, as illustrated below:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
State aid allocation	\$ 3,481	\$ 2,991	\$ 3,171	\$ 2,797
Adjustment for incorrect calculation*	<u>-</u>	<u>419</u>	<u>445</u>	<u>-</u>
Adjusted state aid allocation	\$ -	\$ 2,572	\$ 2,726	\$ -
Municipal pension costs for full-time plan members	<u>(2,750)</u>	<u>(2,750)</u>	<u>(2,750)</u>	<u>(2,750)</u>
Excess state aid	<u>\$ 731</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47</u>

* Letters from the Office of Budget & Financial Management dated November 8, 2018 were sent to the township requesting the return of \$419 of 2016 state aid and \$445 of 2017 state aid to the Commonwealth representing overpayments to the township due to incorrectly calculated state aid allocations. When these amounts have been returned to the Commonwealth, the township's resulting adjusted state aid allocations will be as indicated in the table above. The excess state aid amounts indicated in the table above for 2015 and 2018 are in addition to the overpayments requested in the letters for 2016 and 2017.

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.

STEWART TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATIONS

Finding – (Continued)

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

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

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

Cause: Plan officials failed to reconcile the township's annual allocation of state aid to the plan's annual pension costs attributable to full-time plan members.

Effect: It is this department's opinion that since 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 overpayments of state aid received in the years 2015 and 2018 must be returned to the Commonwealth for redistribution.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Recommendation: We recommend that, in addition to returning the amounts requested in the letters noted above for the adjustments for incorrect calculations, the municipality return the \$778 overpayment of state aid received in the years 2015 and 2018 to the Commonwealth from the township's 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.

STEWART TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATIONS

Finding – (Continued)

Furthermore, we again recommend that, in the future, plan officials reconcile the amount of state aid allocated to the township with the plan's annual pension costs attributable to its full-time participating members and reimburse any excess state aid received to the Commonwealth.

Management's Response: In December 2018, the township reimbursed \$863.12 to the Commonwealth representing the return of 2016 and 2017 state aid pursuant to letters from the Office of Budget & Financial Management, and reimbursed \$778 to the Commonwealth representing the return of excess state aid received in 2015 and 2018.

Auditor's Conclusion: The township's full compliance with the finding recommendation will be evaluated during our next engagement.

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 3,038	\$ 4,157
2013	2,532	4,583
2014	None	7,020
2015	3,481	2,019
2016	2,991	2,509
2017	3,171	2,329

STEWART 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

Ms. Pamela Kessler
Chairman, Board of Township Supervisors

Mr. Lonnie Prinkey
Vice-Chairman, Board of Township Supervisors

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.