

LIMITED PROCEDURES ENGAGEMENT

White Deer Township Non-Uniformed Employees Defined Contribution Pension Plan Union County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

October 2019



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**

Board of Township Supervisors
White Deer Township
Union County
New Columbia, PA 17856

We conducted a Limited Procedures Engagement (LPE) of the White Deer Township Non-Uniformed Employees Defined Contribution Pension Plan for the period January 1, 2015 to December 31, 2018 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 LPE 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, 2013 to December 31, 2018, 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, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract 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 White Deer Township Non-Uniformed Employees Defined Contribution 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment 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

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 White Deer 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.

September 19, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status Of Prior Finding	1
Findings And Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	2
Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan	3
Summary Of Deposited State Aid And Employer Contributions.....	6
Report Distribution List	7

WHITE DEER TOWNSHIP NON-UNIFORMED EMPLOYEES
DEFINED CONTRIBUTION PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

White Deer Township has complied with the prior LPE report recommendation concerning the following:

- Failure To Fully Fund Members' Accounts

The township deposited the contributions due to the members' accounts for the year 2013, with interest.

WHITE DEER TOWNSHIP NON-UNIFORMED EMPLOYEES
DEFINED CONTRIBUTION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$30,227 on the Certification Form AG 385 filed in 2018. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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 plans. Because the township's state aid allocation was based on unit value, the township received an underpayment of state aid of \$4,684 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2018	1	\$ 4,684	\$ 4,684

Although the underpayment of state aid due to the error on Certification Form AG 385 is \$4,684, the township cannot utilize 2018 state aid in excess of its 2018 actual pension costs, which were \$7,010. Since the township's original 2018 state allocation was \$4,684, the township is only entitled to an additional \$2,326 of state aid. Although the additional \$2,326 will be allocated to the township, the full amount of the 2018 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

Recommendation: We 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: Compliance will be evaluated during our next engagement of the plan.

WHITE DEER TOWNSHIP NON-UNIFORMED EMPLOYEES
DEFINED CONTRIBUTION 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 non-uniformed pension plan's defined contribution pension costs in the year 2015, and the township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan for the years 2015, 2017, and 2018, as illustrated below:

	<u>2015</u>	<u>2017</u>	<u>2018</u>
State aid allocation	\$ 7,842	\$ -	\$ 4,684
Actual municipal pension costs	<u>(7,077)</u>	<u>(6,567)</u>	<u>(7,010)</u>
Excess state aid	<u>\$ 765</u>	<u>\$ -</u>	<u>\$ -</u>
Municipal contributions required to fund plan	\$ -	\$ 6,567	\$ 2,326
Actual municipal contributions made	<u>949</u>	<u>6,970</u>	<u>3,048</u>
Excess municipal contributions	<u><u>\$ 949</u></u>	<u><u>\$ 403</u></u>	<u><u>\$ 722</u></u>

Contributions to the plan were based on base wages and sick and vacation pay instead of just base wages.

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.

WHITE DEER TOWNSHIP NON-UNIFORMED EMPLOYEES
DEFINED CONTRIBUTION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, the plan's governing document, Ordinance No. 00-007, at Section 5(d) states:

The annual contribution for the 1st year of the Plan shall be 10% of each participant's base wages for the year, base wages shall not include overtime, bonuses or similar payments and the method of determining the contribution shall remain the same until changed by Resolution as herein provided.

Cause: Municipal officials 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. In addition, municipal officials failed to establish adequate internal control procedures to reconcile the amount of state aid allocated to the township and municipal contributions made to the pension plan with the plan's actual annual 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 year 2015 must be returned to the Commonwealth for redistribution.

In addition, the municipality allocated funds to the members' accounts in the years 2015, 2017, and 2018 in excess of the provisions contained in the plan's governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

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 members' accounts at this time.

Recommendation: We recommend that the municipality return the \$765 of excess state aid received in the year 2015 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.

WHITE DEER TOWNSHIP NON-UNIFORMED EMPLOYEES
DEFINED CONTRIBUTION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

Furthermore, we recommend that, in the future, plan officials contribute to the pension plan based on the provisions of the plan's governing document, and 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: Compliance will be evaluated during our next engagement of the plan.

WHITE DEER TOWNSHIP NON-UNIFORMED EMPLOYEES
DEFINED CONTRIBUTION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 3,884	\$ 3,336
2014	3,873	3,590
2015	7,842	1,713
2016	None	3,953
2017	None	6,970
2018	4,684	3,048

WHITE DEER TOWNSHIP NON-UNIFORMED EMPLOYEES
DEFINED CONTRIBUTION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Carroll Diefenbach
Chairman, Board of Township Supervisors

Mr. Larry Seibert
Vice Chairman, Board of Township Supervisors

Mr. Donald N. Wilver, Jr.
Township Supervisor

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.