COMPLIANCE AUDIT

Paradise Township
Non-Uniformed Pension Plan

Monroe County, Pennsylvania

For the Period

January 1, 2011 to December 31, 2013

April 2015

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
Paradise Township
Monroe County
Cresco, PA 18326

We have conducted a compliance audit of the Paradise Township Non-Uniformed Pension Plan for the period January 1, 2011 to December 31, 2013. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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 retirement benefits calculated for all 3 of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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.

- We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

- We determined whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

The Paradise 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 Comprehensive Annual 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 Paradise Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Paradise 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 finding further discussed later in this report:

Finding – Receipt Of State Aid In Excess Of Entitlement

The contents of this report were discussed with officials of Paradise 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.

April 3, 2015

EUGENE A. DEPASQUALE
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Paradise Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission 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.

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Paradise Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 156, adopted pursuant to Act 15. The plan was established January 1, 1990. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of compensation. As of December 31, 2013, the plan had 10 active members, 1 terminated member eligible for vested benefits in the future, and 2 retirees receiving benefits funded through annuities purchased with plan assets.

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: In 2011, the township received state aid in excess of the plan's pension costs. Plan officials failed to reconcile the amount of state aid received by the township and any available employee forfeitures with the plan's pension costs, as illustrated below:

Actual municipal pension costs	$ 46,190
Employee forfeitures available	(13,567)
Adjusted actual municipal pension costs	$ 32,623
State aid allocation	$ 45,708
Adjusted actual municipal pension costs	(32,623)
Excess state aid	$ 13,085

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 plan 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 13 of the pension plan agreement with PMRS states:

> In the event a member's service with the township is terminated for any reason whatsoever before the funds set aside for such member is vested, then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due from the township for the other members under this plan.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township's state aid allocation and employee forfeitures available to reduce municipal contributions with the plan's actual pension costs.

Finding – (Continued)

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 received in one year to offset pension costs in other years. Consequently, the overpayment of state aid received in the year 2011 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality reimburse the $13,085 of excess state aid received in the year 2011 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, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Liquor Control Audits, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

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 and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

Management's Response: The township provided the following response:

As you are aware, Paradise Township utilizes the Pennsylvania Municipal Retirement System (PMRS) as the investor and the administrator of pension funds in accordance State Law. The audit revealed that in 2011, the Township utilized two sources of revenue in order to make its required non-uniformed pension contributions. The first source of revenue was generated after an employee left prior to vesting her pension. At that time, the employer contributions to her pension were forfeited and utilized to make the quarterly payments towards the pension plan. This was done in accordance with instructions from PMRS and on forms provided by PMRS. Accordingly, the Township met its responsibility in properly utilizing forfeiture funds.

<u>Finding – (Continued)</u>

The second source of revenue came in the form of State aid for the year 2011. As you are aware, state aid is calculated on the prior year's payroll and submitted in September of the year prior to receipt. Nowhere in the calculation form does it request that the forfeiture amounts (either actual or anticipated) be disclosed. Indeed, at the time the calculation was made, there was no forfeiture in as much as the employee was working full-time. Accordingly, the money received in the way of State aid was properly calculated based on the 2010 figures. The State aid was received in September of 2011. No documentation accompanying the State aid requested information regarding forfeiture or informed the municipality that the State aid should be reduced by any forfeiture amounts received. In a nut shell, Paradise Township followed all procedures when it applied the forfeiture amounts in 2011, calculated the state for 2011, and deposited the state aid back into the general fund as a reimbursement for the actual municipal pension costs of $46,190. To complicate matters worse, the state aid granted in the year 2011 was in excess of the calculation provided the prior year as a result of the disbursement of additional unanticipated funds by the state.

During the Exit Conference, Paradise Township expressed its frustration with the audit finding, because it appeared there was simply no obvious way for Paradise Township to have been aware that the received forfeiture money should have been deducted from the State aid received. There was simply no form or instruction that would have advised the township administrator that this was the proper protocol. The one thing that is certain is that all money that was received by the township for the purpose of state aid was utilized in the non-uniformed pension plan.

While the Township appreciates the technicality of the audit finding, the Township does not agree that the problem with the receipt of the aid was with the Township but rather with the procedures that were put into place by the State and PMRS at the time and which were followed explicitly by the Township.

<u>Auditor's Conclusion</u>: As previously cited in the Criteria, it is the 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 received in one year to offset pension costs in other years. In addition, the PMRS plan document specifies that the non-vested portion of terminated members' accounts shall be used to offset contributions required from the township for plan costs. Since employee forfeitures were used in 2011 to reduce the township's required contribution, if the township were permitted to keep the excess state aid, it would result in the township receiving additional funds from the state over and above their annual pension costs. We also note that this finding has been issued to the township previously in an audit report covering the period January 1, 1999 to December 31, 2001. Therefore, the finding and recommendation remain as stated.

PARADISE TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of $13,085. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Liquor Control Audits, 320 Finance Building, Harrisburg, PA 17120.

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

Year Ended December 31	State Aid	Employer Contributions
2008	$ 26,677	$ 14,020
2009	31,280	14,942
2010	32,348	14,523
2011	32,623	None
2012	32,185	12,205
2013	38,844	11,384

Note: In 2011, the township met the plan's $46,190 funding requirement through the deposit of $32,623 in state aid and $13,567 in terminated employee forfeitures (Refer to finding).

PARADISE 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

Paradise Township Non-Uniformed Pension Plan
Monroe County
5912 Paradise Valley Road
Cresco, PA 18326

Mr. Gary Konrath	Chairman, Board of Township Supervisors
Ms. Reda Briglia	Secretary/Treasurer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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, 231 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.