

LIMITED PROCEDURES ENGAGEMENT

Shippen Township Non-Uniformed Pension Plan Cameron County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

October 2015



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
Shippen Township
Cameron County
Emporium, PA 15834

We conducted a Limited Procedures Engagement (LPE) of the Shippen Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014 to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures (relevant requirements). 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 period under review. State aid allocations that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, 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, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × Whether retirement benefits calculated for plan members who retired during the period under review 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, 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.
- × 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 Shippen 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 subsequent to this letter:

- Finding No. 1 – Partial Compliance With Prior Audit Recommendation -
Receipt Of State Aid In Excess Of Entitlement
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An
Overpayment Of State Aid
- Finding No. 3 – Failure To Properly Fund Member Accounts

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 letter were discussed with officials of Shippen Township and, where appropriate, their responses have been included in this letter. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

September 14, 2015

A handwritten signature in cursive script, appearing to read "Eugene A. DePasquale".

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Status of Prior Finding | 1 |
| Findings and Recommendations: | |
| Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Receipt Of State Aid In Excess Of Entitlement | 2 |
| Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid..... | 3 |
| Finding No. 3 – Failure To Properly Fund Members’ Accounts | 5 |
| Potential Withhold of State Aid..... | 6 |
| Summary of Deposited State Aid and Employer Contributions..... | 7 |
| Distribution List | 8 |

SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

· Receipt Of State Aid In Excess of Entitlement

During the current period under review, the township returned \$4,383 to the Commonwealth for the excess state aid received in 2009; however, plan officials again failed to reconcile the amount of state aid allocated to the non-uniformed pension plan with the plan's defined contribution pension costs as discussed in the Findings and Recommendations section of this letter.

SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 letter, the township partially complied with our prior audit recommendation by returning \$4,383 to the Commonwealth for the excess state aid received in 2009; however, plan officials again failed to reconcile the amount of state aid allocated to the non-uniformed pension plan with the plan’s defined contribution pension costs in the years 2012 and 2013, as illustrated below:

| | <u>2012</u> | <u>2013</u> |
|--------------------------------------|-------------|-------------|
| State aid allocation | \$ 17,556 | \$ 15,804 |
| Less: Actual municipal pension costs | (16,117) | (13,863) |
| Excess state aid | \$ 1,439 | \$ 1,941 |

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 again failed to establish adequate procedures to ensure full compliance with the prior audit recommendation.

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 2012 and 2013, in the total amount of \$3,380, must be returned to the Commonwealth for redistribution.

Furthermore, the non-uniformed pension plan’s future state aid allocations may be withheld until the finding recommendation is complied with.

SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality return the \$3,380 of excess state aid received in the years 2012 and 2013 to the Commonwealth from township funds. 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, 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 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: 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 LPE results letter and through our next plan engagement.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified two ineligible non-uniformed employees who were not plan members in the year 2013 and overstated payroll by \$44,028 on the Certification Form AG 385 filed in 2014. The township also certified an ineligible non-uniformed employee who was not a plan member in the year 2014 and overstated payroll by \$31,200 on the Certification Form AG 385 filed in 2015. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), 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.

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

SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on these certification forms 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 allocations are based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

| <u>Year</u> | <u>Normal Cost</u> | <u>Payroll Overstated</u> | <u>State Aid Overpayment</u> |
|-------------|--------------------|---------------------------|------------------------------|
| 2014 | 8.02856% | \$ 44,028 | \$ 3,535 |
| 2015 | 8.02856% | \$ 31,200 | <u>2,505</u> |
| | | | <u><u>\$ 6,040</u></u> |

Furthermore, the non-uniformed pension plan’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid, in the amount of \$6,040, be returned 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 pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 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, plan officials establish adequate procedures, such as having at least 2 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: 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 LPE results letter and through our next plan engagement.

SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Properly Fund Members’ Accounts

Condition: In 2012, the township failed to contribute \$417 to the account of a plan member who retired on February 23, 2012, and in 2013, the township also failed to contribute \$625 to the account of a plan member who retired on March 28, 2013. Conversely, in 2014, the township contributed \$2,500 to the account of an employee who terminated employment in October 2014 and was not eligible for a pension contribution.

Criteria: Section 3.1 of the plan’s governing document, as amended, sets the municipal contribution rate at \$2,500 per full-time employee who is employed on the last day of the year, or whose retirement, disability or death occurred during the plan year. In the event the member is not actively employed for the entire year, the member will receive a pro-rata share of the municipal contribution.

Cause: Township officials were unaware of their obligation to make a partial contribution for the two retired employees who retired during the current period. In addition, township officials failed to establish adequate procedures to ensure that only eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The failure to properly fund the plan has resulted in two plan members being denied benefits to which they are entitled and one employee granted benefits in excess of entitlement under the plan’s governing document. Due to the township’s underfunding of the two members’ accounts, the township must also pay interest on the delinquent contributions.

Recommendation: Since the two referenced retirees have already received their pension account distributions, we recommend that the township make a payment of \$417 plus interest to the member who retired on February 23, 2012, and a payment of \$625 plus interest to the member who retired on March 28, 2013. Interest should be calculated from the date of deposit of the municipal contributions which were made in that year to the date of the payment of the amount in arrears to the retirees. A copy of the interest calculations must be maintained by the township for examination during our next plan engagement.

Furthermore, we recommend the township withdraw the excess contribution from the account of the ineligible former employee and reimburse the township accordingly.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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.

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

Finding Nos. 1 and 2 contained in this letter cite overpayments of state aid to the non-uniformed pension plan in the total amount of \$9,420. 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, 320 Finance Building, Harrisburg, PA 17120.

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

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2009 | \$ 10,625 | None |
| 2010 | 10,029 | \$ 4,971 |
| 2011 | 13,215 | 4,285 |
| 2012 | 17,556 | None |
| 2013 | 15,804 | None |
| 2014 | 16,030 | None |

SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Shippen Township Non-Uniformed Pension Plan
Cameron County
1681 Rich Valley Road
Post Office Box 349
Emporium, PA 15834

| | |
|--------------------|---|
| Mr. Philip Brown | Chairman, Board of Township Supervisors |
| Ms. Brandy Ferraro | Chief Administrative Officer |

This letter 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.