

COMPLIANCE AUDIT

Shenango Township Non-Uniformed Pension Plan Lawrence County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

March 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL**

Board of Township Supervisors
Shenango Township
Lawrence County
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We have conducted a compliance audit of the Shenango Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2018. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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, 2013 to December 31, 2018, 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, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for the plan member who terminated employment and elected a lump-sum form of pension benefit during the current audit 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 comparing the distributed amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- We determined 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Shenango 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 findings further discussed later in this report:

- Finding No. 1 - Noncompliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid
- Finding No. 2 - Failure To Properly Fund Member Accounts
- Finding No. 3 - Custodial Account Transactions Not Adequately Monitored By The Municipality

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

February 14, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	2
Findings and Recommendations:	
Finding No. 1 - Noncompliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid	3
Finding No. 2 - Failure To Properly Fund Member Accounts	4
Finding No. 3 - Custodial Account Transactions Not Adequately Monitored By The Municipality	6
Summary of Deposited State Aid and Employer Contributions	7
Report Distribution List	8

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 Shenango Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former 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 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 Shenango Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1-1993. The plan was established January 1, 1979. Active members are required to contribute \$100 per year to the plan. The municipality is required to contribute \$1,100 per member. During the current audit period, municipal officials elected to pay the annual \$100 member contribution from township funds. As of December 31, 2018, the plan had 4 active members, 3 terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Shenango Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Noncompliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: Our prior audit report disclosed errors on the Certification Form AG 385 filed in 2015 resulting in an underpayment of 2015 state aid in the amount of \$7,842. This amount was subsequently allocated to the township in November 2016.

During the current audit period, the township again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data. The township failed to certify 3 eligible non-uniformed employees (3 units) and understated payroll by \$93,502 on the Certification Form AG 385 filed in 2017. In addition, the township certified one ineligible non-uniformed union employee (1 unit) and overstated payroll by \$49,622 on the Certification Form AG 385 filed in 2018. The data contained on these certification forms 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: A turnover in municipal officials contributed to the failure to certify the eligible non-uniformed employees on the Certification Form AG 385 filed in 2017. In addition, the non-uniformed union employee in question was a part time employee during 2017 until beginning full time employment in 2018, and municipal officials did not realize the employee was not eligible to be certified on the Certification Form AG 385 filed in 2018.

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 plans. Because the township's state aid allocations were based on unit value, the township received an underpayment of state aid of \$9,080 as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2017	Non-Uniformed	(3)	\$ 4,588	\$ (13,764)
2018	Union	1	\$ 4,684	<u>4,684</u>
Net Underpayment of State Aid				<u><u>\$ 9,080</u></u>

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Although the additional state aid will be allocated to the township, the full amount of the 2017 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 again recommend that 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 audit of the plan.

Finding No. 2 - Failure To Properly Fund Member Accounts

Condition: The township did not fully fund the account of one member in the amount of \$400 in the year 2016 and \$300 in 2017. In addition, the township did not fully fund three members' accounts in 2018 in the total amount of \$300, as illustrated below:

<u>2016 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,200	\$ 800	\$ 400

<u>2017 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,200	\$ 900	\$ 300

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

<u>2018 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,200	\$ 1,100	\$ 100
2	1,200	1,100	100
3	1,200	1,100	100
		Total	<u>\$ 300</u>

Criteria: The plan's governing document, Ordinance No. 1-1993, at Section IV, established an annual contribution rate of \$1,200 per employee.

Cause: A turnover of municipal officials contributed to the failure to ensure that 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 members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Furthermore, due to the township's failure to properly fund the accounts of several members, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township review the applicable members' accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

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

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

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 - Custodial Account Transactions Not Adequately Monitored By The Municipality

Condition: Plan officials did not effectively monitor the activity of the Shenango Township Non-Uniformed Pension Plan account as evidenced by the following discrepancies:

- Account balances of active and vested members were not monitored; and
- Trust account statements were not maintained by municipal officials.

Criteria: Assets held in a trust account for the purpose of plan management are to be governed by the terms and provisions of the agreement provided that they are within the parameters of all prevailing pension legislation. Although a municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Plan officials were not aware of their fiduciary responsibility to monitor the non-uniformed pension plan account.

Effect: Inadequate monitoring of the non-uniformed pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that the municipality examine all financial transactions of the non-uniformed pension plan account to ensure the accuracy and propriety of the transactions. The minimum steps that should be applied by a municipality to adequately monitor the custodial account are:

- Verify the mathematical accuracy of the account statements;
- Reconcile the Commonwealth, municipal and members' contributions shown on the account statements to the municipality's records;
- Review custodial statements at pension board meetings; and
- Reconcile pension payments shown on the account statements to the municipality's records.

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

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

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

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 2,400	None
2014	None	\$ 1,800
2015	None	2,400
2016	1,600	1,500
2017	None	3,300
2018	None	3,900

SHENANGO 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. Frank R. Augustine
Chairman, Board of Township Supervisors

Mr. Albert D. Burick, III
Township Supervisor

Mr. Brandon M. Rishel
Township Supervisor

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