

# COMPLIANCE AUDIT

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## East Hanover Township Non-Uniformed Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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March 2023



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Board of Township Supervisors  
East Hanover Township  
Dauphin County  
Grantville, PA 17028

We have conducted a compliance audit of the East Hanover Township Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 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 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.
- 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.
- 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 also tested individual employee contributions for all 11 active employees employed during 2018 and all 12 active employees employed during 2019, 2020 and 2021 amounting to \$16,742, \$22,997, \$29,576, and \$30,853, for the years 2018, 2019, 2020 and 2021, respectively.
- We determined whether retirement benefits calculated for the plan members who retired and the plan member who elected to vest 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2019, and 2021, respectively, in accordance with Act 205 and whether selected information provided on these report 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.

The East Hanover 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 Annual Comprehensive 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 East Hanover Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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.

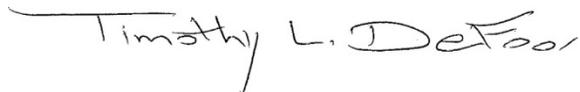
The results of our procedures indicated that, in all significant respects, the East Hanover Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of East Hanover 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.



Timothy L. DeFoor  
Auditor General  
March 1, 2023

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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.

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 East Hanover Township Non-Uniformed Pension Plan is also governed by implementing regulations 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.

The East Hanover Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2020-04 and a separately executed plan agreement with the plan custodian, effective January 1, 2020, adopted pursuant to Act 15. Prior to January 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 2013-04 and an agreement, effective October 1, 2013, also adopted pursuant to Act 15. The plan was established February 1, 1981. Active members are required to contribute two (2.0) percent of compensation and optionally contribute up to 18 percent of compensation to the plan. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2021, the plan had 10 active members, 1 terminated member eligible for vested benefits in the future, and 10 retirees receiving pension benefits.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

East Hanover Township has complied with the prior recommendation concerning the following:

- Failure To Properly Fund Members' Accounts

The township adjusted the applicable members' accounts to ensure they were funded in accordance with the provisions contained in the plan's governing document.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement**

Condition: The township received state aid in excess of the plan’s pension costs in the year 2018 and 2021, as illustrated below:

	<u>2018</u>	<u>2021</u>
Actual municipal pension costs	\$ 55,942	\$ 61,980
Forfeitures available	<u>(52,046)</u>	<u>(28,307)</u>
Adjusted actual municipal pension costs	3,896	33,673
Actual state aid allocated	<u>(4,065)</u>	<u>(34,061)</u>
Excess state aid received	<u>\$ 169</u>	<u>\$ 388</u>

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.

In addition, Section 3.01 of the separately executed plan agreement effective January 1, 2020, states:

Municipal Contributions: Required in an amount equal to ten percent (10.00%) of each Member’s Compensation.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s annual state aid allocation, along with forfeitures available to reduce municipal contributions, with the plan’s actual defined contribution pension costs.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (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 in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2018 and 2021, in the total amount of \$557, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$557 of excess state aid received in the years 2018 and 2021 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 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.

Furthermore, we recommend that plan officials establish adequate internal control procedures to reconcile the annual amount of state aid allocated to the township, along with available forfeitures, to the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth. In addition, if prior years' municipal contributions available, plan officials should consult with PMRS to determine if additional municipal contributions need to be made to meet the plan's funding requirements.

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.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: The township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan during the years 2018, 2019 and 2020, as illustrated below:

	<u>2018</u>	<u>2019</u>	<u>2020</u>
Actual municipal pension Costs	\$ 55,942	\$ 61,308	\$ 65,234
Forfeitures available	<u>(52,046)</u>	<u>(18,953)</u>	<u>-</u>
Adjusted actual municipal pension costs	3,896	42,355	65,234
State aid allocated	<u>(4,065)</u>	<u>(42,355)</u>	<u>(59,086)</u>
Municipal contributions required to fund plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,148</u>
Actual municipal contributions made	\$ 36,647	\$ 4,457	\$ 42,152
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>	<u>(6,148)</u>
Excess municipal Contributions	<u>\$ 36,647</u>	<u>\$ 4,457</u>	<u>\$ 36,004</u>

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Section 9.1(a) of the separately executed plan agreement effective October 1, 2013, states:

Municipal Contributions: The municipality shall contribute ten percent (10%) of each Member’s Compensation...

Section 3.01 of the separately executed plan agreement effective January 1, 2020, states:

Municipal Contributions: Required in an amount equal to ten percent (10.00%) of each Member’s Compensation.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions to properly fund the plan as outlined in the plan’s governing document.

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund in the amount of \$12,954 which existed as of January 1, 2018, increased to \$79,399 as of December 31, 2021, as illustrated by the following:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Unallocated reserve fund at January 1	\$ 12,954	\$ 51,543	\$ 58,631	\$ 97,636
Excess (Used) municipal contributions	36,647	4,457	36,004	(24,197)
Interest earned on reserve funds	2,322	2,631	3,001	5,960
Transfer to administrative expenses	<u>(380)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unallocated reserve fund at December 31	<u>\$ 51,543</u>	<u>\$ 58,631</u>	<u>\$ 97,636</u>	<u>\$ 79,399</u>

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

The unallocated reserve fund maintained by the non-uniformed pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid with the plan's defined contribution pension costs. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan.

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 unallocated reserve fund at this time.

Recommendation: We recommend that the township liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets which represent nonstate aid funds, to the township's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials reconcile the municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll***	Contributions as a Percentage of Covered- Employee Payroll***
2014	\$ 44,097	\$ 47,126	\$ (3,029)	\$ 433,363	10.87%
2015	49,081	35,628	13,453	487,408	7.31%
2016	54,820	54,860	(40)	545,204	10.06%
2017	61,035	70,108	(9,073)	606,551	11.56%
2018	55,881	39,593	16,288	555,017	7.13%
2019	61,373	46,776	14,597	608,482	7.69%
2020	65,233	107,296	(42,063)	647,935	16.56%
2021	61,980	62,368	(388)		

\* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

\*\* The SRC and the actual Contribution were provided by the custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.

In 2014, the township met the plan's \$44,097 SRC through the deposit of \$38,727 in state aid, \$3,828 in general fund contributions and \$1,542 transferred from the municipal reserve account.

In 2015, the township met the plan's \$49,081 SRC through the deposit of \$35,288 in state aid, \$4,559 in general fund contributions and \$9,234 transferred from the municipal reserve account.

In 2016, the township met the plan's \$54,820 SRC through the deposit of \$39,372 in state aid and \$15,448 in general fund contributions.

In 2017, the township met the plan's \$61,035 Statutorily Required Contribution through the deposit of \$55,059 in state aid and \$5,976 in general fund contributions.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS – (Continued)

In 2018, the township met the plan's \$55,881 SRC through the deposit of \$4,065 in state aid and transfer of \$51,985 from the municipal reserve account which included excess state aid in the amount \$169.

In 2019, the township met the plan's \$61,373 SRC through the deposit of 42,355 in state aid and transfer of \$19,018 from the municipal reserve account.

In 2020, the township met the plan's \$65,233 SRC through the deposit of \$59,086 in state aid and \$6,147 in general fund contributions.

In 2021, the township met the plan's \$61,980 SRC through the deposit of 34,061 in state aid and transfer of \$28,307 from the municipal reserve account which included excess state aid of \$388 (*refer to Finding No. 1 contained in this report*).

\*\*\* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

EAST HANOVER TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**Mr. Chad Leese**  
Chairman, Board of Township Supervisors

**Mr. Nicholas Yingst**  
Township Manager

**Ms. Sharon Umberger**  
Secretary/Treasurer

**Mr. Richard Cardamone, CPA, CGMA**  
Pennsylvania Municipal Retirement System

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