

LIMITED PROCEDURES ENGAGEMENT

Shippen Township Non-Uniformed Pension Plan

Cameron County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

April 2019



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
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, 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 findings 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 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior LPE Report Recommendation –
Receipt Of State Aid In Excess Of Entitlement

The finding noted above repeats a condition that was cited in our previous LPE report that has not been fully corrected by township officials. We are concerned by the township's failure to fully correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this report.

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 Shippen 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.

April 17, 2019



EUGENE A. DEPASQUALE
Auditor General

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SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Shippen Township has complied with the prior recommendations concerning the following.

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The township reimbursed \$6,040 to the Commonwealth for the overpayment of state aid received in the years 2014 and 2015; and

- Failure To Properly Fund Member's Accounts

Township officials made payment of \$417, plus interest, to the member who retired on February 23, 2012 and made payment of \$625, plus interest, to the member who retired on March 28, 2013. In addition, the excess contributions that were made to an ineligible employee's account in 2015, were returned to the township.

Partial Compliance With Prior Recommendation

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

- Receipt of State Aid In Excess of Entitlement

The township returned \$3,380 to the Commonwealth for the excess state aid received in 2012 and 2013; 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 Finding and Recommendation section of this report.

SHIPPEN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior LPE Report Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with our prior recommendation by returning the excess state aid received in 2012 and 2013 to the Commonwealth; however, a similar condition occurred during the current period. 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 2015, 2016, 2017 and 2018, as illustrated below:

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
State aid allocation	\$ 16,755	\$ 16,034	\$ 16,593	\$ 17,945
Actual municipal pension costs	<u>(15,813)</u>	<u>(15,850)</u>	<u>(15,184)</u>	<u>(16,219)</u>
Excess state aid	<u>\$ 942</u>	<u>\$ 184</u>	<u>\$ 1,409</u>	<u>\$ 1,726</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.

Cause: Plan officials again failed to establish adequate internal control procedures to reconcile the township’s annual state aid allocations with the plan’s actual annual defined contribution pension costs and ensure full compliance with the prior report 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 2015, 2016, 2017 and 2018, in the total amount of \$4,261, 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
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality return the \$4,261 of excess state aid received in the years 2015, 2016, 2017, and 2018 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 again 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 report and through our next engagement of the pension plan

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

The finding contained in this report cites an overpayment of state aid to the township in the amount of \$4,261. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is 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, 321 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
2013	\$ 13,863	None
2014	12,500	None
2015	16,755	None
2016	16,034	None
2017	16,593	None
2018	17,945	None

SHIPPEN 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. Philip R. Brown
Chairman, Board of Township Supervisors

Ms. Brandy L. Ferraro
Secretary/Chief Administrative Officer

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.