

COMPLIANCE AUDIT

Chanceford Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

September 2020



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
Chanceford Township
York County
Brogue, PA 17309

We have conducted a compliance audit of the Chanceford Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2019. 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 findings 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2019, 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, 2014 to December 31, 2019, 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 plan members who separated employment and received a lump-sum distribution 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 recalculating the amount of the pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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 Chanceford 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 Chanceford 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 – Partial Compliance With Prior Audit Recommendation –
Incorrect Data On Certification Form AG 385 Resulting In An
Overpayment Of State Aid

Finding No. 2 – Failure To Properly Fund Member Accounts

Finding No. 3 – Ordinance Improperly Amended By Resolution

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that had not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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

August 17, 2020



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.

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 Chanceford 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 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 Chanceford Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance 2014-3, as amended, and a separately executed plan agreement with the plan custodian. The plan was established January 1, 2001. Active members are not required to contribute to the plan. The municipality was required to contribute 9 percent of compensation for the years 2016, 2017, and 2018; and 10 percent of compensation for the year 2019. As of December 31, 2019, the plan had 5 active members, and 2 terminated members eligible for vested benefits in the future.

CHANCEFORD TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

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

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

During the current audit period, the township reimbursed \$738 to the Commonwealth for the overpayment of state aid received in 2013, 2014, and 2015. However, plan officials again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data, as further discussed in the Findings and Recommendations section of this report.

CHANCEFORD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, although the township partially complied with the prior audit recommendation by returning the overpayment of state aid received in 2013, 2014, and 2015 to the Commonwealth, a similar condition occurred during the current audit period. Plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2017 and 2018. During the current audit period, the township overstated payroll by \$2,500 on the Certification Form AG 385 filed in 2017 and 2018 by including supervisor meeting pay. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Although plan officials were previously made aware that supervisor wages on the separately issued W-2s were not includable as earnings on Certification Form AG 385, due to a changeover in personnel at the township shortly after the prior audit, these instructions were not followed by newly appointed personnel. In addition, the township lacked adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the data certified.

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 were 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>
2017	9.0%	\$ 2,500	\$ 225
2018	9.0%	\$ 2,500	225
	<i>Less state aid previously returned*</i>		<u>(143)</u>
	Total 2018 Net State Aid Overpayment		<u>82</u>
		Total Overpayment of State Aid	<u><u>\$ 307</u></u>

* It was noted that the township identified and previously returned \$143 of its excess 2018 state aid allocation to the Commonwealth during February 2019.

CHANCEFORD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

It was further noted that the township inadvertently remitted an additional check in the amount of \$800 to the Commonwealth in June 2017 which represented a duplicate repayment of the excess state aid received during 2013, 2014 and 2015, as noted in Condition above and in the Status of Prior Finding section of this report. No additional state aid is required to be returned and the excess reimbursement that was repaid by the township to the Commonwealth in the amount of \$493 (*\$800 minus \$307*) will be returned to the township.

Recommendation: We again recommend that in the future, plan officials establish adequate internal control 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: 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 properly fund members’ accounts in 2016, 2017, 2018 and 2019, as illustrated below:

<u>2016 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 4,207	\$ 4,432	<u><u>\$ (225)</u></u>

<u>2017 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 4,569	\$ 4,553	\$ 16
2	3,828	3,729	99
3	2,411	2,322	89
4	3,801	3,702	99
5	3,217	3,069	<u>148</u>
		Total	<u><u>\$ 451</u></u>

CHANCEFORD 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	\$ 5,224	\$ 4,949	\$ 275
2	4,446	4,264	182
3	4,300	4,211	89
4	4,235	4,080	155
5	2,381	2,248	133
		Total	<u>\$ 834</u>

<u>2019 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 5,593	\$ 5,689	\$ (96)
2	4,571	4,659	(87)
3	4,477	4,558	(81)
4	4,562	4,656	(94)
6	4,251	4,331	(80)
		Total	<u>\$ (439)</u>
		Total	<u>\$ 621</u>

Criteria: The plan’s governing document, Ordinance No 2014-3, which adopts a separately executed plan document, established the municipal contribution rate in an amount equal to 9 percent of the participant’s annual compensation for 2016, 2017 and 2018. For 2019, the plan’s governing document was amended by Resolution 2018-10, and establishes the municipal contribution rate in an amount equal to 10 percent of the participant’s annual compensation.

Cause: For one of the members, plan officials were unaware that the separate stipend for a Township Supervisor was not to be included in with pensionable wages when determining required municipal contributions. For all members, the township calculated the required contributions on a monthly basis using hand calculated totals, which resulted in a number of instances where contributions were under calculated. Specifically, the township utilized net wages instead of gross wages as the basis for the calculation. Furthermore, during 2019, the township began weekly deposits of required contributions, but erroneously duplicated one week’s deposit leading to an overfunding of members’ accounts. Generally, the township lacked adequate internal control procedures to reconcile required contributions to actual wages at various times throughout the year.

CHANCEFORD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 members' accounts 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 going forward.

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. 3 – Ordinance Improperly Amended By Resolution

Condition: The pension plan governing document, Ordinance No. 2014-3, adopted a separately executed plan agreement with the plan's custodian effective January 1, 2013, to provide pension benefits to its employees. During 2018, the township amended its plan agreement with the adoption of Amendment No. 1 which was enacted pursuant to Resolution No. 2018-10.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials were not aware that a resolution cannot amend an ordinance.

Effect: The failure to properly adopt the amendment to the plan agreement could result in inconsistent or improper administration of the provisions of the township's pension plan.

Recommendation: We recommend that the township amend the plan's governing document with a properly executed ordinance.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2014	\$ 16,742	\$ 1,338
2015	18,671	494
2016	18,939	None
2017	18,638	None
2018	18,349	2,935
2019	20,586	3,307

CHANCEFORD 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. Kent Heffner
Chairman, Board of Township Supervisors

Ms. Leah Geesey
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.