

LIMITED PROCEDURES ENGAGEMENT

North Shenango Township Non-Uniformed Pension Plan Crawford County, Pennsylvania For the Period January 1, 2016 to May 14, 2019

April 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Supervisors
North Shenango Township
Crawford County
Espyville, PA 16424

We conducted a Limited Procedures Engagement (LPE) of the former North Shenango Township Non-Uniformed Pension Plan for the period January 1, 2016 to May 14, 2019 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 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.
- 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.
- Whether retirement benefits calculated for plan members who terminated employment and/or retired and elected a lump-sum form of pension benefit during the engagement 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 individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- 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 former North Shenango Township Non-Uniformed Pension Plan was not 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 – Return Of Unused Monies To The Commonwealth

The township enacted Resolution No. 2019-4 and effectively terminated the former non-uniformed pension plan May 14, 2019. During October 2019, all remaining current and/or future liabilities associated with the former pension plan were calculated and disbursed, accordingly. Subsequently, on December 5, 2019, the remaining pension plan assets were liquidated and transferred to the township's general fund, where the funds remained as of the date of this report (refer to the finding and recommendation contained in this report). This report represents the final engagement of the former non-uniformed pension 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 North Shenango 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 engagement.

April 9, 2020



EUGENE A. DEPASQUALE
Auditor General

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NORTH SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Return Of Unused Monies To The Commonwealth

Condition: On May 14, 2019, township officials adopted Resolution No. 2019-4, effectively terminating the former non-uniformed pension plan. In addition, during October 2019, all remaining pension plan liabilities were satisfied in accordance with the plan document. Subsequently, on December 5, 2019, all remaining plan assets, amounting to \$69,710, were liquidated and transferred to the township's general fund. However, the township failed to determine whether funds representing unused state aid not used for intended purposes under Act 205, were required to be returned to the Commonwealth and remain in the township's general fund as of the date of this report.

Criteria: Act 205, at Section 402(g), directs that:

Any general municipal pension system State aid received by a municipality shall, only be used to defray the cost of the pension plan or pension plans maintained by the municipality ...

Furthermore, Section 402(j) authorizes the Auditor General to administer the General Municipal Pension State Aid Program. This administrative power necessarily extends to ensuring that state aid is both allocated and used in accordance with the act.

Cause: Plan officials were unsure of the proper disposition of the unused funds upon termination of the former pension plan.

Effect: The township may have improperly retained unneeded Act 205 funds that should be returned to the Commonwealth for redistribution to eligible municipalities for reimbursement of eligible pension costs.

Recommendation: We recommend that township officials, with the assistance of their solicitor and/or the plan's actuary after accounting for any remaining obligations and municipal contributions, return any remaining unused state aid to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

Management's Response: Municipal officials agreed with the finding. Subsequent to completion of the engagement, township officials, with assistance of the former plan actuary, determined that \$2,119 of unused state aid funds remains in the general fund and will be returned to the Commonwealth for redistribution.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be monitored subsequent to the release of the audit report upon receipt of the state aid repayment.

NORTH SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2013, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 123,818	\$ 174,004	\$ 50,186	71.2%
01-01-15	159,314	227,337	68,023	70.1%
01-01-17	201,491	159,217	(42,274)	126.6%

The township enacted Resolution No. 2019-4 effectively terminating the former pension plan May 14, 2019. All remaining obligations were satisfied; and, on December 5, 2019, all remaining assets of the former pension plan were liquidated and transferred to township’s general fund (*refer to the finding and recommendation contained in this report*).

NORTH SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

NORTH SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2014	\$ 24,204	100.0%
2015	24,757	100.0%
2016	22,842	100.0%
2017	19,116	100.0%
2018	11,182	100.0%
2019	11,743	100.0%

NORTH SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	4.5%
Projected salary increases	3.5%
Cost-of-living adjustments	None assumed

NORTH 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. Daniel Dickey
Chairman, Board of Township Supervisors

Ms. Donna Kean
Township Secretary

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.