

LIMITED PROCEDURES ENGAGEMENT

Lurgan Township Non-Uniformed Pension Plan Franklin County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

September 2017



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
Lurgan Township
Franklin County
Newburg, PA 17240

We conducted a Limited Procedures Engagement (LPE) of the Lurgan Township Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 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 finding contained in our prior audit 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether retirement benefits calculated for plan members who retired 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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 allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts 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 Lurgan 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 findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Failure To Properly Fund Members' Accounts

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 Lurgan 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.

August 29, 2017



EUGENE A. DEPASQUALE
Auditor General

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LURGAN TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Lurgan Township has complied with the prior audit recommendation concerning the following:

· Receipt Of State Aid In Excess Of Entitlement

During the engagement period, the township reimbursed \$3,265 to the Commonwealth for the excess state aid received in 2011 and 2012.

LURGAN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified 1 ineligible non-uniformed part-time employee and overstated payroll by \$15,077 on the Certification Form AG 385 filed in 2014, certified 1 ineligible non-uniformed part-time employee and overstated payroll by \$22,021 on the Certification Form AG 385 filed in 2015, and certified 1 ineligible non-uniformed part-time employee and overstated payroll by \$23,079 on the Certification Form AG 385 filed in 2016. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure only full-time employees were 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> |
|--------------------------------|--------------------|---------------------------|------------------------------|
| 2014 | 10% | \$ 15,077 | \$ 1,508 |
| 2015 | 10% | \$ 22,021 | 2,202 |
| 2016 | 10% | \$ 23,079 | <u>2,308</u> |
| Total Overpayment of State Aid | | | <u>\$ 6,018</u> |

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

LURGAN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$6,018, plus interest, be returned to the Commonwealth from the township’s general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, 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. A copy of the interest calculation must be submitted along with the check.

We also 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 engagement.

Finding No. 2 – Failure To Properly Fund Members’ Accounts

Condition: The township did not properly fund the accounts of two plan members in 2015, as illustrated below:

| <u>2015 Employees</u> | <u>Required Contributions</u> | <u>Actual Contributions</u> | <u>Contributions Due (Excess)</u> |
|---------------------------|-----------------------------------|---------------------------------|---------------------------------------|
| 1 | \$ 2,308 | \$ 2,707 | \$ (399) |
| 2 | 3,191 | 2,792 | 399 |

Criteria: The plan’s governing document sets the municipal contribution rate at 10 percent of each participant’s compensation.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the contributions credited to the individual member’s accounts was in accordance with the plan’s governing document.

LURGAN 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.

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 engagement.

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

Finding No. 1 contained in this report cites an overpayment of state aid to the township in the amount of \$6,018, plus interest. 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.

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

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2011 | \$ 9,753 | None |
| 2012 | 9,379 | None |
| 2013 | 9,379 | \$ 1,884 |
| 2014 | 11,263 | 1,570 |
| 2015 | 12,766 | 28 |
| 2016 | 12,794 | 534 |

LURGAN 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. Robert Boyd
Chairman, Board of Township Supervisors

Ms. JoAnna Miller
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.