

**SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN**

**LAWRENCE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2007**





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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality, which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Shenango Township Nonuniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Shenango Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1-1993. Active members are required to contribute \$100 per year to the plan. The municipality is required to contribute \$1,100 per plan member, per year. During the audit period, municipal officials have elected to pay the \$100 member contribution from township funds.





Board of Township Supervisors  
Shenango Township  
Lawrence County  
New Castle, PA 16101

We have conducted a compliance audit of the Shenango Township Nonuniformed Pension Plan for the period January 1, 2005, to December 31, 2007. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 audit 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. Shenango Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements, which are available at the township's offices. Those 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 an internal control structure to provide reasonable assurance that the Shenango Township Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Shenango Township Nonuniformed 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 – Noncompliance With Prior Audit Recommendation – Deposit Of State Aid In Excess Of Amount Required To Fund The Plan

Finding No. 2 – Failure To Fund Members’ Accounts

Finding No. 3 – Allocation Of State Aid In Excess Of Entitlement

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

The contents of this report were discussed with officials of Shenango Township and, where appropriate, their responses have been included in the report.

October 17, 2008

JACK WAGNER  
Auditor General

SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Municipal officials have not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Deposit Of State Aid In Excess Of Amount Required To Fund The Plan

SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Deposit Of State Aid In Excess Of Amount Required To Fund The Plan

Condition: As disclosed in the prior audit report, municipal officials deposited state aid in excess of the plan’s defined contribution pension costs in the year 2003.

Section IV of Ordinance No. 1-1993 states, in part:

The Township of Shenango shall contribute an annual amount of \$1,100 per employee into the fund.

Furthermore, municipal officials have elected to contribute an additional \$100 per employee into the fund, but failed to amend the governing ordinance in this regard, although the actuarial valuation reports dated January 1, 2003, January 1, 2005, and January 1, 2007, report the municipal contribution rate as \$1,200 per member.

The contributions made to the pension plan during the period January 1, 2003, to December 31, 2003, resulted in the members’ accounts being allocated state aid in excess of the plan’s defined contribution pension costs, as illustrated by the following:

State aid allocation	\$ 10,092
Actual municipal pension costs	<u>(3,600)</u>
Excess state aid	<u>\$ 6,492</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: Municipal officials failed to establish adequate internal control procedures to comply with the prior audit recommendation.

SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: 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 members' accounts at this time.

Recommendation: It is this department's opinion that since 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. Because the township used municipal contributions to pay the 2003 minimum municipal obligation of the township's nonuniformed union pension plan, the excess deposit of state aid to the nonuniformed pension plan in the year 2003, in the total amount of \$6,492, may be reimbursed to the township's general fund.

We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

We also recommend that, if it is the intent of the township to annually contribute \$1,200 annually per member, the township amend the plan's governing document accordingly.

Management's Response: Municipal officials agreed with the finding without exception.

Finding No. 2 – Failure To Fund Members' Accounts

Condition: In 2005, 2006 and 2007, the township did not fund the member accounts of the 2 plan members.

Criteria: The plan's governing document, Ordinance No. 1-1993, sets the municipal contribution rate at \$1,100 per full-time employee and municipal officials have elected to contribute an additional \$100 per employee.

Cause: Township officials failed to contribute to the pension plan in 2005, and in 2006 and 2007, officials deposited state aid into an unallocated reserve fund but failed to transfer the required contributions into the members' accounts (See Finding No. 3).

Effect: The failure to properly fund the members' accounts will result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Due to township’s failure to properly fund the referenced members’ accounts, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contributions due to the members’ accounts for the years 2005, 2006 and 2007, with interest. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

Management’s Response: Municipal officials agreed with the finding without exception.

Finding No. 3 – Allocation of State Aid In Excess Of Entitlement

Condition: In 2006 and 2007, the township allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

	<u>2006</u>	<u>2007</u>	<u>Total</u>
State aid allocation	\$ 15,496	\$ 17,205	\$ 32,701
Less: Actual municipal pension costs	<u>(2,400)</u>	<u>(2,400)</u>	<u>(4,800)</u>
Excess state aid	<u>\$ 13,096</u>	<u>\$ 14,805</u>	<u>\$ 27,901</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 plan 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.

SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Township officials did not have adequate internal control procedures in place to ensure that the amount of state aid allocated to the pension plan did not exceed the required contributions outlined in the plan’s governing document.

Effect: As a result of the township depositing state aid into the nonuniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund in the amount of \$33,424 was generated at December 31, 2007, as illustrated by the following:

	<u>2006</u>	<u>2007</u>
Unallocated reserve fund January 1	\$ -	\$ 15,572
State aid allocated	15,496	17,205
Interest earned	<u>76</u>	<u>647</u>
Unallocated reserve fund December 31	<u>\$ 15,572</u>	<u>\$ 33,424</u>

Furthermore, the required contributions made to the pension plan were not allocated to the members’ accounts and are included in the unallocated reserve fund balance (See Finding No. 2).

Effect: It is this department’s opinion that, since 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.

Recommendation: We recommend that the township liquidate the unallocated reserve fund maintained by the nonuniformed pension plan by transferring the balance due to the members’ accounts for the years 2006 and 2007, with interest, (See Finding No. 2) and reimbursing the balance to the township’s general fund for contributions made to the police and nonuniformed-union pension plans with municipal funds for the years 2006 and 2007.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan with the pension plan’s annual defined contribution pension costs.

Management’s Response: Municipal officials agreed with the finding without exception.

SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 9,304	\$ 296
2003	10,092	None
2004	2,400	None
2005	None	None
2006	15,496	None
2007	17,205	None



SHENANGO TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Shenango Township Nonuniformed Pension Plan  
Lawrence County  
1000 Willowbrook Road  
New Castle, PA 16101

Mr. Larry A. Herman	Chairman, Board of Township Supervisors
Mr. Robert K. Peters	Township Supervisor
Mr. Brian Tanner	Chief Administrative Officer
Mr. Deno DeLorenzo	Consultant
Mr. Al Papa, Jr.	Consultant
Mr. Don J. Boetger	Actuary

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