

COMPLIANCE AUDIT

Shenango Township Non-Uniformed Pension Plan Lawrence County, Pennsylvania

January 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

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

We have conducted a compliance audit of the Shenango Township Non-Uniformed Pension Plan 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 findings 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:

- For the period January 1, 2022 to December 31, 2023, 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 the period January 1, 2021 to December 31, 2023, we determined whether 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 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, 2018 to December 31, 2023, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2022 to December 31, 2023, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2022 to December 31, 2023, we determined that there were no benefit calculations prepared.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.

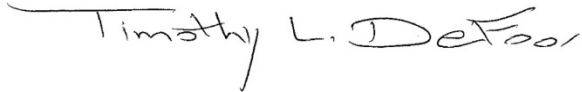
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Shenango Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Recommendation – Custodial Account Transactions Not Adequately Monitored By The Municipality
- Finding No. 2 – Partial Compliance With Prior Recommendation – Failure To Properly Fund Member Accounts

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
December 12, 2024

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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 two 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 Shenango 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 Shenango Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1-1993, as amended. The plan was established January 1, 1979. Effective January 1, 2022, active members are not required to contribute to the plan and the municipality is required to contribute seven percent of total payroll per member. Prior to January 1, 2022, active members were required to contribute \$100 and the municipality was required to contribute \$1,100, annually per member. However, the municipality elected to also pay the annual \$100 member contribution from municipal funds. As of December 31, 2023, the plan had three active members and three terminated members eligible for vested benefits in the future.

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Shenango Township has complied with the prior recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

During the period subject to audit, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

Partial Compliance With Prior Recommendation

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

- Failure To Properly Fund Member Accounts

On January 22, 2020, the township made the necessary adjustments to ensure the members' accounts were fully funded; however, the township again failed to ensure members' accounts were properly funded in 2022 in accordance with the provisions contained in the plan's governing document as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendation

Shenango Township has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Custodial Account Transactions Not Adequately Monitored By The Municipality

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Custodial Account Transactions Not Adequately Monitored By The Municipality

Condition: As disclosed in our prior audit report, plan officials did not effectively monitor the activity of the Shenango Township Non-Uniformed Pension Plan account. During the period subject to audit, plan officials again failed to effectively monitor the activity of the Shenango Township Non-Uniformed Pension Plan account as evidenced by the following discrepancies:

- Account balances of active and vested members were not maintained; and
- Trust account statements were not maintained by municipal officials.

Criteria: Assets held in a trust account for the purpose of plan management are to be governed by the terms and provisions of the agreement provided that they are within the parameters of all prevailing pension legislation. Although a municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials stated they were unable to obtain the necessary account statements from the plan custodian or the custodian's website.

Effect: Inadequate monitoring of the non-uniformed pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We again recommend that the municipality examine all financial transactions of the account to ensure the accuracy and propriety of the transactions. The minimum steps that should be applied by a municipality to adequately monitor the custodial account are:

- Verify the mathematical accuracy of the account statements;
- Reconcile the Commonwealth, municipal and members' contributions shown on the account statements to the municipality's records;
- Review custodial statements at pension board meetings; and
- Reconcile pension payments shown on the account statements to the municipality's records.

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

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Recommendation – Failure To Properly Fund Member Accounts

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by making the necessary adjustments to ensure the members’ accounts were fully funded; however, the township again failed to ensure members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document. During the year 2022, the township did not properly fund the accounts of two members as illustrated below:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 4,195	\$ 4,412	\$ 217
2	3,686	3,902	216
		Total	<u>\$ 433</u>

Criteria: The plan’s governing document, Ordinance No. 1-1993, at Section IV established an annual contribution rate of \$1,200 per employee. Effective January 1, 2022, the plan was amended by Ordinance No. 2 of 2022, at Section IV, which established an annual contribution rate of seven percent (7%) of the total township payroll into the fund.

Cause: The township amended the municipal contribution rate effective January 1, 2022, from a flat dollar to a percentage of payroll contribution rate, however, for the months of January and February 2022, the township continued to contribute at the flat dollar rate. Once the contribution rate changed to seven percent of total township payroll, the municipality failed to reconcile the contributions due on an annual basis because adequate internal control procedures were not in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan’s governing document.

Effect: The municipality allocated funds to the members’ accounts in excess of the defined contribution percentage rate contained in the plan’s governing document. The failure to properly fund the members’ accounts could result in plan members receiving excess benefits to which they are not entitled in accordance with the plan’s governing document.

Recommendation: We again recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document.

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also again 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: We are concerned that the municipality has not fully complied with the prior recommendation and encourage compliance at the earliest opportunity to do so.

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS
(UNAUDITED)

Year Ended December 31	State Aid	Employer Contributions
2018	None	\$ 3,900
2019	None	4,100
2020	None	5,200
2021	None	3,600
2022	None	10,155
2023	None	10,666

SHENANGO TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Frank R. Augustine
Chairman, Board of Township Supervisors

Mr. Brandon M. Rishel
Township Supervisor

Mr. Albert D. Burick, III
Township Manager

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.