

COMPLIANCE AUDIT

Upper Allen Township Non-Uniformed Employees' Retirement Plan Cumberland County, Pennsylvania

October 2024



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 Commissioners
Upper Allen Township
Cumberland County
Mechanicsburg, PA 17055

We have conducted a compliance audit of the Upper Allen Township Non-Uniformed Employees' Retirement 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding 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. State aid allocations 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 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, 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 whether retirement benefits calculated for the plan member who elected to vest during the period noted 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 payable to the recipient.
- We determined whether the January 1, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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.

Upper Allen 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.

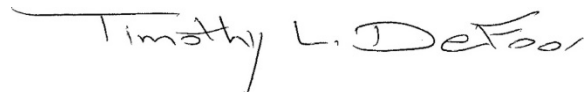
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Upper Allen Township Non-Uniformed Employees' Retirement Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 Upper Allen Township Non-Uniformed Employees' Retirement Plan was 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 – Noncompliance With Prior Recommendation – Incorrect Data
On Certification Form AG 385 Resulting In An Overpayment
Of State Aid

The finding contained in this audit report repeats a condition that was cited in our previous report that has 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 Upper Allen 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.



Timothy L. DeFoor
Auditor General
August 29, 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 Upper Allen Township Non-Uniformed Employees' Retirement 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.

The Upper Allen Township Non-Uniformed Employees' Retirement Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 734 for non-uniformed employees hired on or after November 1, 2014. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established November 1, 2014. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of compensation. As of December 31, 2023, the plan had 25 active members and 1 terminated vested member eligible for vested benefit from the plan.

UPPER ALLEN TOWNSHIP NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Upper Allen Township has not complied with the prior recommendation concerning the following:

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

Although the municipality received reimbursement for the prior state aid underpayment, the township again failed to comply with the instructions that accompany Certification Form AG 385 in accurately reporting the required pension data, as further discussed in the Finding and Recommendation section of this report.

UPPER ALLEN TOWNSHIP NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the township again failed to comply with the instructions that accompanied Certification Form AG 385. The township certified two ineligible non-uniformed employees (2 units) and overstated payroll by \$82,440 on the Certification Form AG 385 filed in 2023.

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 again failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the reported data prior to submission and ensure compliance with the prior recommendation. The certification of the two ineligible employees was attributable to an oversight by municipal officials.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township's state aid allocation was based on unit value, the incorrect certification of pension data affected the township's state aid allocation, as identified below:

| <u>Year</u> | <u>Units Overstated</u> | <u>Unit Value</u> | <u>State Aid Overpayment</u> |
|-------------|-------------------------|-------------------|------------------------------|
| 2023 | 2 | \$ 5,828 | \$ 11,656 |

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

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

Recommendation: We recommend that the total excess state aid, in the amount of \$11,656, plus interest, be returned to the Commonwealth. 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.

UPPER ALLEN TOWNSHIP NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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: Due to the potential withholding of state aid, the township's compliance with the finding recommendation will be monitored subsequent the release of the audit report and through our next audit of the plan.

UPPER ALLEN TOWNSHIP NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$11,656, plus interest. A condition of a repeat finding 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.

UPPER ALLEN TOWNSHIP NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS
(UNAUDITED)

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2018 | None | \$ 12,422 |
| 2019 | None | 50,745 |
| 2020 | None | 50,726 |
| 2021 | \$ 60,494 | None |
| 2022 | 88,068 | 971 |
| 2023 | 104,991 | None |

Note: In 2018, the township met the plan's \$27,034 funding requirement through the deposit of \$12,422 in employer contributions and the allocation of \$14,612 in terminated employee forfeitures.

In 2019, the township met the plan's \$51,706 funding requirement through the deposit of \$50,745 in employer contributions and the allocation of \$961 in terminated employee forfeitures.

In 2020, the township met the plan's \$63,435 funding requirement through the deposit of \$50,726 in employer contributions and the allocation of \$12,709 in terminated employee forfeitures.

In 2021, the township met the plan's \$73,910 funding requirement through the deposit of \$60,494 in state aid and the allocation of \$13,416 in terminated employee forfeitures.

In 2022, the township met the plan's \$119,590 funding requirement through the deposit of \$88,068 in state aid and \$971 in employer contributions and the allocation of \$30,551 in terminated employee forfeitures.

In 2023, the township met the plan's \$132,237 funding requirement through the deposit of \$104,991 in state aid and the allocation of \$27,246 in terminated employee forfeitures.

UPPER ALLEN TOWNSHIP NON-UNIFORMED EMPLOYEES' RETIREMENT PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Kenneth Martin
President, Board of Township Commissioners

Mr. Scott Fraser
Township Manager

Ms. Sharon Shipman
Township Treasurer

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.