

COMPLIANCE AUDIT

Canonsburg Borough Non-Uniformed Money Purchase Pension Plan

Washington County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2020

June 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Canonsburg Borough
Washington County
Canonsburg, PA 15317

We have conducted a compliance audit of the Canonsburg Borough Non-Uniformed Money Purchase Pension Plan for the period January 1, 2017 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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:

- 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 all years within the period under audit.

- 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, 2017 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all active employees employed during the audit period amounting to \$214, \$1,253, \$3,622, and \$6,784, for the years 2017, 2018, 2019, and 2020, respectively, made during the audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.

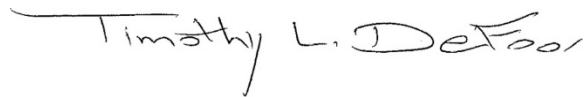
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Canonsburg Borough Non-Uniformed Money Purchase Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 objective.

The results of our procedures indicated that, in all significant respects, the Canonsburg Borough Non-Uniformed Money Purchase 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 – Unauthorized Funding Mechanism

Finding No. 2 – Failure To Fund Member Accounts And Properly Deduct Member Contributions

The contents of this report were discussed with officials of Canonsburg Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

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.

May 18, 2021

Timothy L. DeFoor
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Unauthorized Funding Mechanism.....	2
Finding No. 2 – Failure To Fund Member Accounts And Properly Deduct Member Contributions	4
Potential Withhold of State Aid.....	7
Summary of Deposited State Aid and Employer Contributions.....	8
Report Distribution List	9

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 2 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 Canonsburg Borough Non-Uniformed Money Purchase 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.

The Canonsburg Borough Non-Uniformed Money Purchase Pension Plan is a single-employer defined contribution pension plan for plan members hired on or after January 1, 2016, locally controlled by the provisions of Ordinance No. 1326. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 2016. Active members are required to contribute 2 percent of compensation to the plan. The municipality is required to contribute 5 percent of compensation. As of December 31, 2020, the plan had five active members.

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Unauthorized Funding Mechanism

Condition: During the audit period January 1, 2017 to December 31, 2020, the municipality improperly made contributions to a deferred compensation plan to provide benefits to members of the non-uniformed defined contribution money purchase pension plan at retirement.

Criteria: Section 102 of Act 205 defines a pension plan as follows:

The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

Consequently, the former Public Employee Retirement Commission (now the Municipal Pension Reporting Program) determined that IRS Section 457 Deferred Compensation plans are not eligible to participate in the general municipal pension system state aid program.

Cause: Municipal officials were not aware that deferred compensation plans were not eligible funding vehicles for pension plans participating in the general municipal pension system state aid program. Municipal officials stated that they were advised that new non-uniformed money purchase plan members could join the municipality's existing deferred compensation plan.

Effect: Since the funding mechanism does not meet the definition of a pension plan as prescribed above, the following occurred:

- The plan is not eligible for participation in the state aid program; however, municipal officials certified 1 plan member in 2018, 1 member in 2019, 3 members in 2020, and 5 members in 2021, on the Certification Forms AG 385 filed in those years;
- Member contributions ranged from a minimum of 2% to a maximum of 5%, which the borough then matched with municipal contributions (See Finding No. 2);
- Municipal officials failed to file the January 1, 2019 actuarial valuation report with the Municipal Pension Report Program (MPRP) by the March 31, 2020, deadline, as required by Act 205, and remained delinquent at the completion of our audit fieldwork; and
- Individual member account statements were unobtainable. Accordingly, we are unable to determine whether employer contributions were deposited and allocated properly and timely to each member's account.

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Because the individual employees rather than the municipality own these types of accounts, the municipality cannot ensure the integrity of the pension assets and the related benefits from surrender by members prior to reaching retirement, which did occur during the current audit period.

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

Recommendation: We recommend that municipal officials either transfer plan assets to an eligible funding mechanism or return all state aid received by the borough attributable to the certification of the plan members in the years 2018, 2019, and 2020, in the amounts of \$4,684, \$5,120, and \$14,772, respectively, totaling \$24,576, to the Commonwealth. In the latter case, 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. A copy of the interest calculation must be submitted along with the check. In addition, if the borough does not transfer plan assets to an eligible funding mechanism, municipal officials should exclude members belonging to the ineligible plan from future Certification Forms AG 385 submitted to the department. Furthermore, since as of the fieldwork completion date, state aid has not yet been determined for the year 2021, if the borough does not transfer plan assets to an eligible funding mechanism, state aid will also need to be returned to the Commonwealth for the year 2021.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the plan.

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Fund Member Accounts And Properly Deduct Member Contributions

Condition: The borough did not fully fund the plan member accounts for the years 2018, 2019, and 2020. In addition, employer and employee contributions were made at incorrect rates. Furthermore, members were not enrolled into the pension plan upon date of hire as required by the plan’s governing document.

The discrepant employer contributions are as follows:

2018:

<u>Employee</u>	<u>Employee Hire Date</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess (Due)</u>
1	09/24/18	\$ 519	\$ -	\$ (519)

2019:

<u>Employee</u>	<u>Employee Hire Date</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess (Due)</u>
1	09/24/18	\$ 2,268	\$ 1,969	\$ (299)
2	06/17/19	1,331	798	(533)
3	09/03/19	754	-	(754)
Total				<u>\$ (1,586)</u>

2020:

<u>Employee</u>	<u>Employee Hire Date</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess (Due)</u>
1	09/24/18	\$ 2,688	\$ 2,602	\$ (86)
2	06/17/19	2,792	2,020	(772)
3	09/03/19	2,552	1,022	(1,530)
4	02/10/20	1,075	614	(461)
5	06/01/20	1,330	424	(906)
Total				<u>\$ (3,755)</u>

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

The discrepant member contributions are as follows:

2018:

<u>Employee</u>	<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
1	09/24/18	\$ -	\$ 208	\$ (208)

2019:

<u>Employee</u>	<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
1	09/24/18	\$ 1,969	\$ 907	\$ 1,062
2	06/17/19	798	532	266
3	09/03/19	-	302	(302)
Total				<u>\$ 1,026</u>

2020:

<u>Employee</u>	<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
1	09/24/18	\$ 2,602	\$ 1,075	\$ 1,527
2	06/17/19	2,020	1,117	903
3	02/10/20	614	430	184
4	06/01/20	424	532	(108)
Total				<u>\$ 2,506</u>

Criteria: Section A-301 of Ordinance No. 1396, the governing plan document, states, in part:

- (a) Participant Contributions. Participants are required to contribute an amount equal to two percent (2.0%) of Participant’s Compensation on the last day of each payroll period into their Account...
- (b) Employer Contributions. As of the last day of each payroll period, the Employer shall contribute an amount equal to five percent (5%) of each Participant’s Compensation.

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Section A-2.01 states that employees shall become eligible for plan participation on his/her date of hire.

Cause: Municipal officials were unaware of the municipal and member contribution rates set in the plan's governing document, and the municipality was matching whatever the employee annually contributed at a range of 2 to 5 percent of participant compensation.

Furthermore, municipal officials were unaware that the plan document provided for plan participation eligibility as of their dates of hire and stated that employees had a 3 month probation period.

Effect: The failure to utilize correct contribution rates and enroll plan members timely could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Due to the borough's failure to properly fund the members' accounts, the borough must now pay interest on the delinquent contributions.

In addition, a forfeiture was not properly applied which resulted in an unvested, terminated member receiving pension funds, funded with municipal contributions, to which they were not entitled.

Recommendation: We recommend that the borough deposit the contributions due to the member accounts for the years 2018, 2019, and 2020, with interest, from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that the borough reconcile employee contributions and deposit any outstanding amounts plus interest.

In addition, we recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded and employees are enrolled in the plan in accordance with the provisions contained in the plan's governing document after the borough transfers plan assets to an eligible funding mechanism as recommended in Finding No. 1.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$ 214
2018	None	1,253
2019	None	3,661
2020	None	6,784

CANONSBURG BOROUGH NON-UNIFORMED MONEY PURCHASE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable David H. Rhome
Mayor

Mr. R. T. Bell
Council President

Ms. Denise Lesnock
Borough Manager

Ms. Callie Munch
Human Resources Manager

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