

COMPLIANCE AUDIT

Chippewa Township Non-Uniformed Cash Balance Pension Plan

Beaver County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2020

December 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Chippewa Township
Beaver County
Beaver Falls, PA 15010

We have conducted a compliance audit of the Chippewa Township Non-Uniformed Cash Balance Pension Plan for the period January 1, 2018 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, 2018 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 the active employee employed during the audit period amounting to \$2,759, \$9,144 and \$9,508, for the years 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.
- We determined whether the January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2020 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.

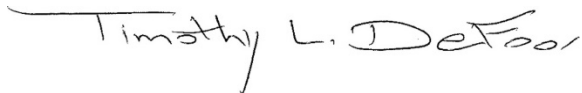
The Chippewa Township Non-Uniformed Cash Balance Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Chippewa Township Non-Uniformed Cash Balance 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 Chippewa Township Non-Uniformed Cash Balance 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 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid
- Finding No. 2 – Awarding Of Professional Services Contract Inconsistent With Township Resolution And Act 205
- Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

The contents of this report were discussed with officials of Chippewa 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.

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 2, 2021

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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 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 Chippewa Township Non-Uniformed Cash Balance 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Chippewa Township Non-Uniformed Cash Balance Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 256, and a separately executed plan agreement with the Pennsylvania Municipal Retirement System (PMRS), adopted pursuant to Act 15, for eligible employees hired after May 31, 2017. The plan was established August 1, 2017. Active members are required to contribute 3 percent of compensation to the plan. The municipality is required to contribute 3 percent of each member's compensation. As of December 31, 2020, the plan had 1 active member.

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$23,195, \$49,008, \$62,400, and \$64,062 on the Certification Form AG 385 filed during 2018, 2019, 2020 and 2021, respectively. In addition, the township overstated payroll by \$16,136 on the Certification Form AG 385 filed in 2020 by including the wages of a police officer while in part-time employment status with the township during a portion of the plan year which is not includible for certification purposes according to Act 205. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification. Each Non-Uniformed Employee MUST meet each of these conditions anytime between January 1st and December 31st of the *prior calendar year*:

- A. Be an active, full-time non-uniformed employee of the municipality.
- B. Be employed for any six (6) consecutive months during calendar year
- C. Work not less than 35 hours per week.
- D. Be a member of a pension plan and meet all its requirements.

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: The township lacked adequate internal control procedures, such as having another individual review the data certified, to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

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 plans. Because the township's state aid allocations for 2018, 2019 and 2021 were based on unit value and the township's state aid allocation for 2020 was based on pension costs, the incorrect certification of pension data affected the township's state aid allocations, as identified below:

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	Non-Uniformed	1	\$ 4,684			\$ (4,684)
2019	Non-Uniformed	1	5,121			(5,121)
2020	Police Non-Uniformed			.1203% .0775%	16,136 (62,400)	1,941 (4,836)
2021	Non-Uniformed	1	4,797			<u>(4,797)</u>
Net Underpayment of State Aid						<u>\$ (17,497)</u>

Although the township will be reimbursed for the total net underpayment of state aid due to the township’s certification errors, the full amount of the township’s state aid allocations were not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan’s funding obligation.

Recommendation: We 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 audit of the plan.

Finding No. 2 – Awarding Of Professional Services Contract Inconsistent With Township Resolution And Act 205

Condition: In August 2017, the township entered into a contractual agreement with PMRS to provide a cash balance pension plan for its employees hired after May 31, 2017. Although the township adopted mandatory provisions of Act 205 regarding the procurement of professional services contracts relative to its pension plans via Resolution No. 2014-8, there was no evidence provided to support that the procurement of pension services was conducted in accordance with the township’s resolution and/or Act 205.

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Regarding professional services contracts, Chapter 7-A of Act 205, as amended by Act 44 of 2009, states the following:

Act 44 defines “Professional Services Contract”, at Section 701-A, as “a contract to which the municipal pension system is a party that is:

- (1) for the purpose or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.”

In addition, Section 702-A (a) of Act 205 states, in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Further, Section 702-A (c), (e), (f), and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest – The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system’s Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Resolution No. 2014-8 formally establishes the procedures for the purchase or provision of services, including investment, legal, actuarial, and other consulting services to comply with the act.

Cause: Plan officials failed to maintain documentation to evidence compliance with the township's governing document and provisions of Act 205 relative to professional services contracts for the pension plan.

Effect: We were unable to determine whether the township complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures for the procuring of professional services for the township's non-uniformed cash balance pension plan. Also, by failing to maintain appropriate supporting documentation evidencing the review of proposals, the corresponding documentation summarizing the relevant factors that resulted in the award of the contract, as well as proper notifications and inclusion of the required disclosures to unsuccessful applicants and the making of these applications and disclosures public (except for proprietary information and information protected by law) after awarding the contract, it denotes a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the contract for the township's pension plan.

Recommendation: We recommend the township follow procedures developed and implemented in Resolution No. 2014-8 for the procurement of professional services for the township's pension plan and ensure compliance with Act 205 while maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the township's pension plan.

In addition, since we were unable to conclude whether the township complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures relative to the procurement of the professional services for the township's pension plan awarded in 2017, we recommend that plan officials, along with current township officials, collectively review the process and familiarize themselves with the procedures enacted by the township, thus ensuring transparency for plan members as well as the citizens of Chippewa Township and the avoidance of any confusion pertaining to the administration of the township's pension plan.

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.

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

Condition: The township’s record-keeping system did not provide effective control over the transactional activity of the non-uniformed pension plan during 2020. Municipal officials were unable to furnish annual financial statements or custodial account transaction statements for the non-uniformed pension plan. These annual financial and account statements have historically been provided by the plan’s custodian, PMRS. However, as of the date of this report, annual financial and accounting statements summarizing the pension account activity have not been provided for the year 2020.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the 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 indicated that the plan’s custodian, PMRS, failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2020. In addition, municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of the individual transactions tested during performance of the audit for the year 2020, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations. Additionally, inadequate monitoring of the 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 recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account of the non-uniformed pension plan for the year 2020 to ensure the accuracy and propriety of the transaction activity. In addition, we recommend that municipal officials establish and maintain a financial record-keeping system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures.

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

Auditor's Conclusion: It was noted that PMRS recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. PMRS officials have taken active measures to resolve these issues and recently indicated that they anticipate providing 2020 Year-End Financial Activity Reports and Annual Member Statements for all of their plans beginning in the fall of 2021. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2018	None	\$ 1,347
2019	None	1,634
2020	None	1,807

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data was not yet available, this will be done prospectively.

CHIPPEWA TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. James R. Bouril
Chairman, Board of Township Supervisors

Mr. Mark A. Taylor
Township Manager

Ms. Beth Popik
Finance 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.