

COMPLIANCE AUDIT

Elizabeth Township Non-Uniformed Cash Balance Pension Plan

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

February 2022



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
Elizabeth Township
Lancaster County
Lititz, PA 17543

We have conducted a compliance audit of the Elizabeth Township Non-Uniformed Cash Balance 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our 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.

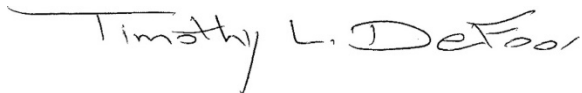
The Elizabeth Township Non-Uniformed Cash Balance Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. 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 Elizabeth 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 Elizabeth 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 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

The contents of this report were discussed with officials of Elizabeth 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
January 19, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan	2
Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	3
Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan.....	5
Summary of Deposited State Aid and Employer Contributions.....	7
Report Distribution List	8

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 Elizabeth 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 Elizabeth Township Non-Uniformed Cash Balance Pension Plan is a single-employer cash balance pension plan for non-uniformed employees hired on or after January 1, 2017. It is locally controlled by the provisions of Ordinance No. 2018-1 and a separately executed plan agreement with the Pennsylvania Municipal Retirement System (PMRS), adopted pursuant to Act 15. The plan was established January 1, 2017. Active members are not required to contribute to the plan. The municipality is required to contribute 5 percent of each member's compensation. As of December 31, 2020, the plan had one active member.

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

Finding No. 1 – 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 cash balance pension plan during 2019 and 2020. Municipal officials were unable to furnish annual financial statements or custodial account transaction statements for the non-uniformed cash balance 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 years 2019 and 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 years 2019 and 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 years 2019 and 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 cash balance pension plan for the years 2019 and 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.

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

Finding No. 1 – (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 were to begin providing 2020 Year-End Financial Activity Reports and Annual Member Statements for their plans in the fall of 2021. However, PMRS has not provided 2019 or 2020 statements to the municipality as of the date of this report. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 1 eligible employee (1 unit) and understated payroll by \$49,560 on the Certification Form AG 385 filed in 2018, and failed to certify 1 eligible employee (1 unit) and understated payroll by \$57,984 on the Certification Form AG 385 filed in 2020. 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.

Cause: The certification errors are attributable to oversights by municipal officials. Additionally, 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.

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

Finding No. 2 – (Continued)

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 were based on unit value, the township received an underpayment of state aid of \$9,608 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2018	1	\$ 4,684	\$ 4,684
2020	1	\$ 4,924	<u>4,924</u>
Total Underpayment of State Aid			<u><u>\$ 9,608</u></u>

Although the additional state aid will be allocated to the township, the full amount of the 2018 and 2020 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 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: Compliance will be evaluated during our next audit of the plan.

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

Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: In 2017, the township made contributions to the pension plan in excess of contributions required to fund the plan. An employee was hired on January 1, 2017 and, based on the provisions of the plan agreement, should have become a plan member on April 1, 2017. Based on the plan member's salary from April 1, 2017 through the end of the year, the required contributions to the plan for the year 2017 would have been \$1,953; however, the township contributed \$2,730 into the pension plan for 2017, resulting in excess contributions of \$777. The township subsequently transferred \$2,478 to the plan member's account for contributions based on the member's compensation earned during the entire year of 2017, and \$252 remained in the municipal reserve account.

Criteria: Section 3.01 of the separately executed plan agreement sets the required municipal contribution at five percent of each member's compensation.

Concurrently, Section 2.01, Membership Eligibility, states:

Eligibility Date: Date on which the Employee completes sixty (60) days of Eligibility Service.

Whereas, Section 1.34, Eligibility Service, states:

Method of Measurement: Elapsed Time Method.

In addition, Section 1.70 sets the Plan Entry Date as the first day of the following month after completion of Eligibility Criteria under Section 2.01.

According to the provisions of the plan agreement, the employee met the Membership Eligibility on March 2, 2017 after completing 60 days of Eligibility Service. Therefore, his Plan Entry Date should have been April 1, 2017.

Cause: The excess municipal contributions were attributable to the township contributing on the compensation that the employee earned during the first quarter of 2017, before he should have been a member of the plan. As described in the Management Response section below, the township suspended several handbook requirements when hiring this employee, including the eligibility requirements for plan membership.

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

Finding No. 3 – (Continued)

Effect: The municipality allocated funds to the member's account in excess of contributions authorized by the plan agreement. The pension plan also has excess contributions remaining in the municipal reserve account.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the member's account and reimbursed to the township. In addition, we recommend that the township liquidate the municipal reserve account maintained by the cash balance pension plan by transferring the assets to the township's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials determine the annual required contributions to the plan in accordance with the plan agreement.

Management's Response: A letter from the Chairman of the Board of Township Supervisors was provided stating the following:

This letter is to clarify the original employment status of the Elizabeth Township Employee.

The following facts apply:

- He was hired with a F/T permanent status on January 1, 2017.
- He was hired with the current handbook status in mind.
- The Board, in order to gain his acceptance of the employment offer, suspended several handbook requirements including the 60- and 90-day requirements to receive benefits. ALL benefits, including holiday, sick, vacation and funeral leave pay, as well as short term disability, long term disability and life insurance; and pension plan accessibility, were made effective from DATE OF HIRE.

As an elected supervisor of this Township, I was part of the Board that made this offer with the opportunity to be eligible for the pension plan(s) from the first day of employment. We agreed to suspend those requirements for this hire.

Please consider this employee eligible for all relevant retirement benefits as of January 1, 2017.

Auditor's Conclusion: The Board of Township Supervisors' decision to suspend the township's handbook requirements for a new hire does not negate the provisions of the pension plan prescribed by the plan agreement with PMRS adopted by Ordinance No. 2018-1. Based on the Criteria cited above, the finding and recommendation remain as stated. Compliance will be evaluated during our next audit of the plan.

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

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$ 2,730
2018	None	2,646
2019	None	2,919
2020	None	3,032

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.

ELIZABETH 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. Brian R. Wiker
Chairman, Board of Township Supervisors

Mr. Loren Miller
Township Manager

Ms. Cynthia Cranmer, CPA
Pennsylvania Municipal Retirement System

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.