

COMPLIANCE AUDIT

Fallowfield Township Non-Uniformed Union Pension Plan

Washington County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2019

March 2021



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
Fallowfield Township
Washington County
Charleroi, PA 15022

We have conducted a compliance audit of the Fallowfield Township Non-Uniformed Union Pension Plan for the period January 1, 2018 to December 31, 2019. 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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, 2014 to December 31, 2019, 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, 2017 and January 1, 2019, actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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.
- We determined whether all payments made to the multi-employer union pension plan were in accordance with the provisions contained in the collective bargaining agreement for the period January 1, 2016 to December 31, 2019.

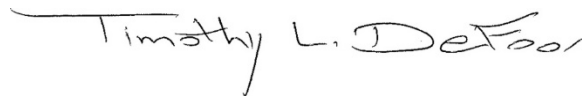
The township's non-uniformed union employees participate in the Steelworker's Pension Trust, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Fallowfield Township Non-Uniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Fallowfield Township Non-Uniformed Union 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 Fallowfield Township Non-Uniformed Union 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 finding further discussed later in this report:

Finding – Receipt Of State Aid In Excess Of Entitlement

The contents of this report were discussed with officials of Fallowfield 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

February 17, 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 Fallowfield Township Non-Uniformed Union 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.

As further described in the Letter from the Auditor General included in this report, the township's non-uniformed union employees participate in the Steelworker's Pension Trust. The Fallowfield Township Non-Uniformed Union Pension Plan is locally controlled by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established October 29, 1991. Active members are not required to contribute to the plan. The municipality was required to contribute \$1.65 per hour per employee in 2018 and \$1.75 per hour per employee in 2019. As of December 31, 2019, the plan had 5 active members.

FALLOWFIELD TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed union pension plan’s defined contribution pension costs in the years 2018 and 2019, as illustrated below:

	<u>2018</u>	<u>2019</u>
State aid allocation	\$ 14,904	\$ 14,439
Actual municipal pension costs	(13,825)	(12,479)
Excess state aid	\$ 1,079	\$ 1,960

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2018 and 2019 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$3,039 of excess state aid received in the years 2018 and 2019 to the Commonwealth from the non-uniformed union pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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 evidence of payment.

FALLOWFIELD TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding – (Continued)

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception. Subsequent to the audit period, on February 3, 2020, the township reimbursed the Commonwealth \$1,080 for the overpayment of 2018 state aid. On January 22, 2021, the township reimbursed the Commonwealth \$1,960 for the overpayment of 2019 state aid.

Auditor's Conclusion: Based on the management response, it appears municipal officials have complied with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

FALLOWFIELD TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2014	\$ 9,427	None
2015	9,253	\$ 200
2016	13,400	1,430
2017	16,218	None
2018	14,904	None
2019	14,439	None

FALLOWFIELD TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Bruce Smith
Chairman, Board of Township Supervisors

Mr. Joseph Sopcak
Vice-Chairman, Board of Township Supervisors

Mr. Earl Sadler
Township Supervisor

Ms. Karen Talbert
Secretary-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.