

COMPLIANCE AUDIT

Franklin Township Non-Uniformed Pension Plan Butler County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

September 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Franklin Township
Butler County
Prospect, PA 16052

We have conducted a compliance audit of the Franklin Township Non-Uniformed Pension Plan for the period January 1, 2016 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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:

- 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for the plan member who separated employment and received a lump-sum distribution during the current audit period 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 actually paid to the recipient.
- We determined whether the January 1, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 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.

The Franklin Township Non-Uniformed 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 Comprehensive Annual 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 Franklin Township Non-Uniformed 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 objectives.

The results of our procedures indicated that, in all significant respects, the Franklin Township Non-Uniformed 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 – Allocation Of State Aid In Excess Of Pension Costs

Finding No. 2 – 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 Franklin 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.

September 1, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Findings and Recommendations:	
Finding No. 1 – Allocation Of State Aid In Excess Of Pension Costs	3
Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension 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 Franklin Township Non-Uniformed 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 Franklin Township Non-Uniformed Pension Plan was a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 95, and a separately executed plan agreement with PMRS with an effective date of January 1, 2016, adopted pursuant to Act 15. The plan was established January 1, 1994. Active members are not required to contribute to the plan. The municipality was required to contribute \$938 and \$1,063 per quarter for each member in 2016 and 2017, respectively, and \$1,188 per quarter for each member in 2018 and 2019. As of December 31, 2019, the plan had three active members.

Subsequent to the current audit period, the township restated its non-uniformed pension plan by adopting a cash balance plan agreement with PMRS, effective April 1, 2020. Active members are not required to contribute to the plan. The municipality is required to contribute \$1,187 per calendar quarter for each member according to the agreement.

FRANKLIN TOWNSHIP NON-UNIFORM PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Franklin Township complied with the prior recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit period, municipal officials reimbursed \$1,734 to the Commonwealth for the excess state aid received in 2016 and implemented procedures to annually reconcile the amount of state aid allocated to the pension plan, along with available forfeitures, with the plan's actual costs and returned excess state aid to the Commonwealth for redistribution during the current audit period. However, it was noted during the current audit period that the township allocated state aid in excess of eligible pension costs as further discussed in Finding No. 1 of this report.

FRANKLIN TOWNSHIP NON-UNIFORM PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Allocation Of State Aid In Excess Of Pension Costs

Condition: The township allocated state aid to its non-uniformed pension plan in excess of eligible pension costs during 2017, as illustrated below:

Actual municipal pension costs	\$	10,861
Employee forfeitures available		(6,395)
Adjusted actual municipal pension costs	\$	4,466
State aid allocated		6,515
Excess state aid	\$	2,049

Plan officials failed to adequately pro-rate employer contributions for two employees (*an employee terminated during April 2017 and another employee became a new plan participant during October 2017*) during 2017, both of whom failed to earn the appropriate credited service for the full quarterly contribution as prescribed by the plan document.

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.

FRANKLIN TOWNSHIP NON-UNIFORM PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Section 9.1 (a), (b), and (c) of Article IX of the plan’s separately executed plan agreement effective January 1, 2016, states:

- (a) The Municipality shall contribute six hundred dollars (\$600) to each Member’s Account per quarter in accordance with the Board’s policy regarding the treatment of member contributions.
- (b) For Members who do not earn Credited Service for the full quarter, the Municipality shall contribute an amount equal to a proportion of the Member’s actual Credited Service earned during the quarter.
- (c) The Municipality may annually elect to contribute at a higher amount in future years by adopting a resolution and filing a copy of it with the Board.

In addition, in accordance with Section 9.1(c) above, the Township adopted Resolution 17-01 which increased the quarterly employer contribution rate for each member to \$1,062.50 for the year 2017.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the employer contributions, including state aid, were limited to eligible pension costs as prescribed by the plan document.

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 excess state aid allocated to the plan in the year 2017, in the total amount of \$2,049, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$2,049 of excess state aid received in the year 2017 to the Commonwealth from the non-uniformed 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.

We also recommend that plan officials establish adequate internal control procedures to ensure that required annual employer contributions, including state aid, made to the pension plan and allocated to plan members in the future, are limited to eligible pension costs in accordance with the plan document.

FRANKLIN TOWNSHIP NON-UNIFORM PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Auditor’s Conclusion: The township’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

Finding No. 2 – 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 2019. 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 2019.

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 2019. 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 2019, 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.

FRANKLIN TOWNSHIP NON-UNIFORM PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 2019 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.

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

Auditor’s Conclusion: PMRS has indicated that they are in the process of preparing 2019 Year-End Financial Activity Reports and Annual Member Statements for all municipalities. PMRS has also indicated that they recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. This transition in addition to disruptions in normal government operation due to COVID-19 has resulted in a three to four month delay in the 2019 year-end reporting process. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

FRANKLIN TOWNSHIP NON-UNIFORM PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 11,390	None
2017	6,515	None
2018	None	None
2019	\$ 8,011	\$ 3,860

Note: In 2017, the township met the plan's \$10,861 funding requirement through the deposit of \$6,515 in state aid and allocation of \$6,395 in terminated employee forfeitures.

In 2018, the township met the plan's \$14,370 funding requirement through the allocation of \$14,370 in terminated employee forfeitures.

In 2019, the township met the plan's \$14,370 funding requirement through the deposit of \$8,011 in state aid, \$3,860 in municipal contributions and allocation of \$2,499 in terminated employee forfeitures.

FRANKLIN TOWNSHIP NON-UNIFORM PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Herman Bauer
Chairman, Board of Township Supervisors

Ms. Janet Gray
Vice Chairman, Board of Township Supervisors

Ms. Shauna Holt-Pearcy
Secretary

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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