

COMPLIANCE AUDIT

Georges Township Non-Uniformed Management Pension Plan

Fayette County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2019

May 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
Georges Township
Fayette County
Uniontown, PA 15401

We have conducted a compliance audit of the Georges Township Non-Uniformed Management 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 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 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 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 made for all 5 active employees employed during the audit period amounting to \$6,759, \$11,057, \$14,015, and \$14,014, for the years 2016, 2017, 2018, and 2019, respectively, made during the audit period.
- We determined whether retirement benefits calculated for the lone plan member who retired during the 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- 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 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.
- We determined whether the terms of all 7 of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 67 of the Governmental Accounting Standards Board, as amended, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Georges Township Non-Uniformed Management 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 Georges Township Non-Uniformed Management 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 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The Plan

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

May 5, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

| | <u>Page</u> |
|--|-------------|
| Background..... | 1 |
| Finding and Recommendation: | |
| Finding - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan | 2 |
| Summary of Deposited State Aid and Employer Contributions..... | 4 |
| Report Distribution List | 5 |

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 Georges Township Non-Uniformed Management 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Georges Township Non-Uniformed Management Pension Plan is a single-employer defined contribution plan locally controlled by the provisions of Resolution 1982-1, as amended. The plan was established January 1, 1982. The township amended its contribution requirements annually for each year of the audit period, as follows:

- In 2016, the township was required to contribute \$8,000 for each plan member. In addition, the township agreed to match up to 3% of gross salary of voluntary employee contributions for each roadmaster and to match up to \$1,500 of voluntary contributions for the township secretaries;
- In 2017, the township was required to contribute \$8,000 for each plan member. In addition, the township agreed to match up to 4% of gross salary of voluntary employee contributions for each roadmaster and to match up to \$2,122 of voluntary contributions for the township secretaries;
- In 2018, the township was required to contribute \$8,000 for each plan member. In addition, the township agreed to match up to 5% of gross salary of voluntary employee contributions for each roadmaster and to match up to \$2,730 of voluntary contributions for the township secretaries; and

BACKGROUND – (Continued)

- In 2019, the township was required to contribute \$8,000 for each roadmaster. In addition, the township agreed to match up to 5% of gross salary of voluntary employee contributions for each roadmaster. Furthermore, the township was required to contribute \$11,338 for each township secretary.

As of December 31, 2019, the plan had 5 active members.

GEORGES TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The township made contributions to the non-uniformed management pension plan in excess of contributions required to fund the pension plan, as illustrated below:

| | <u>2016</u> | <u>2017</u> | <u>2018</u> | <u>2019</u> |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Actual municipal pension costs | \$ 46,662 | \$ 50,536 | \$ 53,625 | \$ 54,900 |
| Actual municipal contributions made | <u>\$ 46,700</u> | <u>\$ 50,608</u> | <u>\$ 53,650</u> | <u>\$ 56,692</u> |
| Excess municipal contributions | <u>\$ 38</u> | <u>\$ 72</u> | <u>\$ 25</u> | <u>\$ 1,792</u> |

Criteria: Resolution No. 2003-1A established the employer contribution rate for the years 2003 and 2004 at \$4,540 annually, per member. Subsequent employer contribution rates were set by the elected township auditors and elected township supervisors and documented solely in their respective meeting minutes as follows:

- In 2016, the township was required to contribute \$8,000 for each plan member. In addition, the township agreed to match up to 3% of gross salary of voluntary employee contributions for each roadmaster and to match up to \$1,500 of voluntary contributions for the township secretaries;
- In 2017, the township was required to contribute \$8,000 for each plan member. In addition, the township agreed to match up to 4% of gross salary of voluntary employee contributions for each roadmaster and to match up to \$2,122 of voluntary contributions for the township secretaries;
- In 2018, the township was required to contribute \$8,000 for each plan member. In addition, the township agreed to match up to 5% of gross salary of voluntary employee contributions for each roadmaster and to match up to \$2,730 of voluntary contributions for the township secretaries; and

GEORGES TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

- In 2019, the township was required to contribute \$8,000 for each roadmaster. In addition, the township agreed to match up to 5% of gross salary of voluntary employee contributions for each roadmaster. Furthermore, the township was required to contribute \$11,338 for each township secretary.

Cause: The township paid the maximum matching voluntary employee contributions in the beginning of the year prior to incurring and reconciling the actual payroll and associated contribution costs. In the years 2016, 2017, 2018, and 2019, actual employee contributions deducted and deposited were less than what the township prefunded and was required to match. Also, the township did not have adequate control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: The municipality allocated funds to the members' accounts in excess of the defined contribution rates contained in the plan's governing document and authorized by the elected township auditors and supervisors. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the members' accounts at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed management pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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.

GEORGES TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2014 | \$ 30,000 | None |
| 2015 | 34,000 | None |
| 2016 | None | \$ 46,700 |
| 2017 | None | 50,608 |
| 2018 | None | 53,650 |
| 2019 | None | 56,692 |

GEORGES TOWNSHIP NON-UNIFORMED MANAGEMENT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Mark Migyanko
Chairman, Board of Township Supervisors

Mr. Darrell Trifiro
Vice-Chairman, Board of Township Supervisors

Mr. John J. Hicks
Township Supervisor

Ms. Linda M. Smith
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.