

COMPLIANCE AUDIT

Hampton Township Money Purchase Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

January 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Township Council
Hampton Township
Allegheny County
Allison Park, PA 15101

We have conducted a compliance audit of the Hampton Township Money Purchase 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.

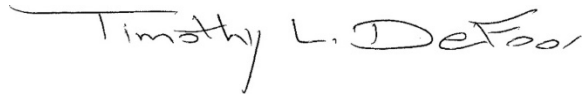
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing 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, 2015 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 all 14 active employees employed during 2017, 15 active employees employed during 2018, 17 active employees employed during 2019, and 20 active employees employed during 2020 amounting to \$26,094, \$34,969, \$41,638 and \$51,983, for the years 2017, 2018, 2019 and 2020, respectively.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hampton Township Money Purchase 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 Hampton Township Money Purchase 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 An Underpayment Of State Aid
- Finding No. 2 – Failure To Fund Member’s Account
- Finding No. 3 – Failure To Properly Allocate Forfeitures

The contents of this report were discussed with officials of Hampton 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 21, 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 Hampton Township Money Purchase 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

The Hampton Township Money Purchase Pension Plan is a single-employer defined contribution money purchase pension plan locally controlled by the provisions of Ordinance No. 798, effective May 1, 2017. Prior to that, the plan was controlled by the provisions of Appendix A of Ordinance No. 762 for all administrative and union employees hired on or after January 1, 2013. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. Active members are required to contribute 5 percent of earnings to the plan. The municipality is required to contribute 1 percent of each participant's wages, increasing to 2 percent beginning with the fifth full calendar year of employment. In addition, the municipality is required to contribute for each participant the amount equal to the "unit value" reported by the Department of the Auditor General for the applicable plan year. As of December 31, 2020, the plan had 19 active members.

HAMPTON TOWNSHIP MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$70,769 on the Certification Form AG 385 filed in 2020. The data contained on this certification form 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: Plan officials failed to certify an employee who worked more than six months in the plan year and the township lacked adequate procedures, such as having another individual review the accuracy of the data reported on the certification form, to timely identify the omission prior to submission.

Effect: The data submitted on this certification form 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 allocation was based on unit value, the township received an underpayment of state aid as identified below:

<u>Unit Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
1	\$ 4,924	\$ 4,924

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the state aid allocation was 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.

HAMPTON TOWNSHIP MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Fund Member’s Account

Condition: During 2020, the township did not properly fund the account of a member, hired February 4, 2019, in accordance with the plan’s governing document.

Criteria: Section A-2.01 of Article A-II of Appendix A of the plan’s governing document, Ordinance No. 798, states the following:

Every Eligible Class Employee shall become eligible for Plan participation as of his/her date of hire which shall occur on or after January 1, 2013.

In addition, Article A-III 3.01c of Appendix A of Ordinance No. 798, states the following:

A participant shall be eligible for an Employer State Aid Contribution based on whether the Employer received state aid for such Participant for a given Plan Year (Employee must be certified on Form AG-385 the Employer filed with the Pennsylvania Department of the Auditor General if the Employee worked for a minimum of six (6) consecutive months in the previous calendar year). Furthermore, a Participant must be actively employed as of October 31 of the Plan Year for which the Employer State Aid Contribution is payable. The amount of contribution under this subsection shall be equal to the “unit value” reported by the Department of the Auditor General for the applicable Plan Year pursuant to the General Municipal Pension System State Aid Program under Act 205 of 1984.

Cause: Municipal officials attributed oversight on their part for the failure to include the new employee in the calculation of required municipal contributions for 2020. In addition, it was noted in Finding No. 1 that the individual was inadvertently omitted on the Certification Form AG 385.

Effect: The failure to properly fund the plan resulted in a plan member being denied benefits to which entitled in accordance with the plan’s governing document. Due to township’s failure to properly fund the referenced member’s account, the township must now pay interest on the delinquent contribution.

Recommendation: We recommend that the township deposit the contribution due to the member’s account for the year 2020, with interest, from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

HAMPTON TOWNSHIP MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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. 3 – Failure To Properly Allocate Forfeitures

Condition: The township has not properly applied plan forfeitures resulting from the non-vested portions of three terminated employees’ accounts in accordance with the plan’s governing document. Additionally, these forfeitures remain in the accounts of terminated members as of the date of this report.

Criteria: Section A-8.03 of Article A-VIII of Appendix A of Ordinance No. 798, of the retirement plan document states:

The non-vested portion of Participants’ Accounts shall be forfeited upon termination of employment and shall not be subject to reinstatement. Forfeitures arising under the Plan shall be used to reduce Employer Contributions and Plan expenses.

Cause: Municipal officials were unaware of the aforementioned provision and that the non-vested portion of terminated employees’ accounts should be applied to help reduce employer contributions and/or pay plan expenses. In addition, the township lacked adequate procedures to ensure the appropriate and timely disposition of such forfeitures from affected accounts.

Effect: As a result of not properly applying forfeitures in accordance with the governing document, the township was required to contribute additional general fund monies to fund the plan that could have been used for other general municipal purposes. Furthermore, forfeitures remain in former members’ accounts which could result in terminated members receiving benefits beyond those outlined in the plan’s governing document.

Recommendation: We recommend that the township contact the plan administrator and arrange for the withdrawal of the non-vested portion of the three terminated members’ account balances and application towards the township’s future obligations to the plan. We also recommend that the municipality review the forfeiture policy with the plan administrator to ensure that, in the future, all available non-vested, unused assets are timely identified and used to meet subsequent plan obligations.

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.

HAMPTON TOWNSHIP MONEY PURCHASE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 19,604	\$ 3,641
2016	43,747	4,595
2017	50,471	5,219
2018	56,213	9,014
2019	76,811	11,101
2020	64,009	25,499

HAMPTON TOWNSHIP MONEY PURCHASE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Michael Peters
Council President

Mr. W. Christopher Lochner
Township Manager

Mr. Robert Omecene
Finance Director

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.