

# COMPLIANCE AUDIT

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## Kennedy Township Service Employees' Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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September 2018



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 Commissioners  
Kennedy Township  
Allegheny County  
Coraopolis, PA 15108

We have conducted a compliance audit of the Kennedy Township Service Employees' Pension Plan for the period January 1, 2015 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, 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 12 active employees employed during the audit period amounting to \$16,126, \$16,557 and \$17,180, for the years 2015, 2016 and 2017, respectively, made during the audit period.

We determined whether retirement benefits calculated for both of the plan members who retired and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Kennedy Township Service Employees' Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit

objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Kennedy Township Service Employees' 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 – Failure To Fully And Timely Pay The Minimum Municipal Obligation Of  
The Plan

The contents of this report were discussed with officials of Kennedy 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 14, 2018



EUGENE A. DEPASQUALE  
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Kennedy Township Service Employees' Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Kennedy Township Service Employees' Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 168, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its service employees. The plan was established March 9, 1976. Active members are required to contribute 3 percent of gross wages to the plan. The municipality is required to contribute 10 percent of each member's gross wages. As of December 31, 2017, the plan had 12 active members.

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Fully And Timely Pay The Minimum Municipal Obligation Of The Plan**

Condition: During 2015, 2016 and 2017, plan officials did not fully and timely pay the minimum municipal obligation (MMO) of the service employees' defined contribution pension plan as required by Act 205. Although the outstanding portions of the MMOs due to the service employees' pension plan for 2015, 2016 and 2017 in the amounts of \$3,730, \$2,412 and \$3,983 were eventually deposited on February 28, 2017, March 9, 2017 and July 5, 2018, respectively, plan officials failed to include interest on the outstanding amounts as prescribed by the Act.

Criteria: Section 303(e) of Act 205 states, in part:

Any amount of the minimum municipal obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Treasury Department of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that amounts due to participants of the service employees' defined contribution pension plan were remitted timely and/or included interest in accordance with Act 205.

Effect: Due to the township's failure to fully and timely fund the pension plan in accordance with Act 205, the township must now pay interest on the untimely contributions and allocate these amounts accordingly to pension plan participants.

Recommendation: We recommend that the municipality pay the interest due on the untimely deposits to the service employees' defined contribution pension plan for the years 2015, 2016 and 2017, in accordance with Section 303(e) of Act 205 and allocate amounts accordingly to pension plan participants. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials establish adequate internal control procedures to ensure that amounts due to participants of the service employees' defined contribution pension plan are remitted timely and/or include interest in accordance with Act 205.

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued):**

**Management's Response:** Municipal officials disagreed with the recommendation. In a letter received from the plan's consulting firm, dated August 29, 2018, officials indicated the following:

Contrary to the assertion in the first paragraph of the finding, the Township timely deposited State aid amounts of \$50,024 and \$53,282 in 2015 and 2017 respectively, satisfying both years' MMOs as prescribed under Chapter 3.04 of Act 205. The relatively small residual amounts for 2015 (\$3,730) and (\$3,983) were the result of the actual payroll amounts exceeding the good faith estimates (which we note are not in dispute) for those years. (*Auditor's note: The MMO funding shortage for 2016 in the amount of \$2,412 as noted above was not initially disclosed during initial discussions held with township officials relative to this issue.*) While we agree that it is desirable for the participants to have the residual amounts contributed as close to the preceding December 31<sup>st</sup> as soon as practical, we see nothing in Act 205 that mandates a date certain. Therefore, the township respectively request that the Finding (along with the interest penalty requested) be rescinded.

To eliminate the contribution lag in the future, starting with this year's allocation, we will obtain the final annual payroll for the Plan participants as close to December 31<sup>st</sup> as practical and compare the statutory 10% requirement with the 2018 MMO deposit. At that point, we'll direct the Township to deposit the residual (if any) then, rather than wait for the December 31 allocations to be completed.

**Auditor's Conclusion:** As stated in the criteria above, Act 205 requires any amount of the minimum municipal obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due to be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. Therefore, since the full amount of the aforementioned MMOs were not fully paid by December 31<sup>st</sup> of the year due and interest was not included with the outstanding payment and distributed accordingly to participating plan members, the finding and recommendation remains as stated above. Compliance will be evaluated during our next audit of the plan.



KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 50,562	\$ 6,398
2013	56,380	None
2014	48,120	9,243
2015	50,024	3,730
2016	52,779	2,412
2017	53,282	3,983

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Anthony Mollica**  
President, Board of Township Commissioners

**Mr. Vincent DePascale**  
Vice-President, Board of Township Commissioners

**Mr. John Sinicrope**  
Township Commissioner

**Mr. George Hess**  
Township Commissioner

**Mr. Chris DiNardo**  
Township Commissioner

**Mr. Gerald G. Orsini**  
Manager

**Ms. Kathleen Myers**  
Secretary

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