

COMPLIANCE AUDIT

Liberty Township Non-Uniformed Employees Pension Plan

Adams County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2020

July 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
Liberty Township
Adams County
Fairfield, PA 17320

We have conducted a compliance audit of the Liberty Township Non-Uniformed Employees 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 findings 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 findings 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, 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 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, 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.

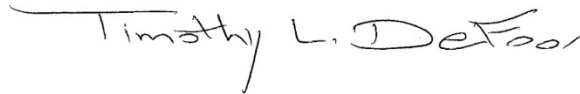
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Liberty Township Non-Uniformed Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and 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.

This is a revised report previously dated April 29, 2021 and is revised to omit data for the year 2017 from the finding and recommendation that was erroneously included in the previously issued report. In addition, the Summary of Deposited State Aid and Employer Contributions on page 5 is revised to reflect accurate data for the year 2017.

The results of our procedures indicated that, in all significant respects, the Liberty Township Non-Uniformed 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 – Partial Compliance With Prior Recommendation – Excess
Contributions Made To Member Accounts

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



Timothy L. DeFoor
Auditor General

July 1, 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 Liberty Township Non-Uniformed Employees 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 Liberty Township Non-Uniformed Employees Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2018-05 and a separately executed plan agreement with the plan's custodian with an effective date of January 1, 2007. The plan was established January 1, 2007. Active members are not required to contribute to the plan. The municipality is required to contribute seven percent of each participant's compensation. As of December 31, 2020, the plan had one active member and one terminated member eligible for vested benefits in the future.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendation

Liberty Township has partially complied with the prior recommendation concerning the following:

- Excess Employer Contributions Made To Member's Account

In 2017, township officials withdrew the improper excess contributions made to the member's account; however, a similar situation occurred during the current audit period as disclosed in the Finding and Recommendation section of this report.

Compliance With Prior Recommendations

Liberty Township has complied with the prior recommendations concerning the following:

- Employer Contribution Rate Changes Not Properly Adopted By Resolution

In 2018, the township adopted Resolution No. 2018-03 that set the employer contribution rate at seven percent of each participant's compensation.

- Undocumented Transfer Of Pension Plan Funds

During the current audit period, the township transferred plan assets from one investment firm to another. The transfer was documented in the Board of Township Supervisors' meeting minutes, adopted by resolution, and in accordance with Act 205 provisions regarding the procurement of professional services.

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the township reimbursed \$630 to the Commonwealth for the overpayment of state aid received in 2016 and 2017.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Recommendation - Excess Contributions Made To Member Accounts

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by withdrawing the improper excess contributions made to the member’s account; however, during the current audit period, plan officials again made excess contributions to member accounts. In 2018 and 2019, the township deposited state aid to member accounts in excess of the amount of municipal contributions required and authorized by the plan’s governing document, as illustrated below:

	<u>2018</u>	<u>2019</u>
State aid deposited to member accounts	\$ 6,410	\$ 6,369
Less: Required contributions	<u>(6,266)</u>	<u>(6,327)</u>
Excess state aid / Excess contributions	<u>\$ 144</u>	<u>\$ 42</u>

Criteria: Resolution No. 2018-03 established the municipal contribution rate at seven percent of each participant’s compensation.

In addition, 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 plan 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: There was a turnover in the secretary/treasurer position in 2016. The new secretary/treasurer was not aware that the calculation of the annual minimum municipal obligation based on estimated compensation is used as a budgeting tool for the defined contribution pension plan and therefore did not reconcile the deposited state aid with the required contributions at the end of each year when actual compensation was known.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: It is this department’s opinion that, since 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; however, the township does have the option to allocate the excess state aid to its defined benefit pension plan. Additionally, excess contributions in the amount of \$186 were allocated to the member accounts. By making excess municipal contributions, the plan members could receive additional benefits beyond those outlined in the plan’s governing document.

Recommendation: We recommend the township review the excess contributions made to the accounts of the plan members with their plan consultant and make the adjustments deemed necessary to ensure the accounts are funded in accordance with the provisions contained in the plan’s governing document. We further recommend that municipal officials allocate the \$186 of excess state aid to the township’s defined benefit pension plan. Finally, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed employees pension plan and municipal contributions made to the pension plan with the plan’s required and authorized contributions.

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.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 6,287
2016	\$ 6,394	497
2017	6,525	None
2018	6,410	None
2019	6,369	None
2020	2,851	None

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Walter Barlow
Chairman, Board of Township Supervisors

Ms. Wendy Peck
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.