

COMPLIANCE AUDIT

Mount Pleasant Township Board of Supervisors Money Purchase Pension Plan Washington County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

April 2023



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
Mount Pleasant Township
Washington County
Hickory, PA 15340

We have conducted a compliance audit of the Mount Pleasant Township Board of Supervisors Money Purchase Pension Plan for the period January 1, 2018 to December 31, 2021. 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 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 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, 2016 to December 31, 2021, 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, 2016 to December 31, 2021, 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 whether retirement benefits calculated for plan members who retired and received a lump-sum distribution during the current audit period, and through the completion of our fieldwork procedures, 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 individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation report were prepared and submitted by March 31, 2020 and 2022, 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

Mount Pleasant Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those 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 Mount Pleasant Township Board of Supervisors 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 objectives.

The results of our procedures indicated that, in all significant respects, the Mount Pleasant Township Board of Supervisors 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:

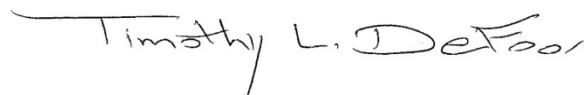
Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Finding No. 2 – Partial Compliance With Prior Recommendation – Allocation Of State Aid In Excess Of Entitlement

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Mount Pleasant 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
March 22, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid.....	3
Finding No. 2 – Partial Compliance With Prior Recommendation – Allocation Of State Aid In Excess Of Entitlement	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 Mount Pleasant Township Board of Supervisors 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 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 Mount Pleasant Township Board of Supervisors Money Purchase Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution 2021-I. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1976. Active members are not required to the plan. The municipality is required to contribute 10 percent of compensation per year beginning 2020. Prior to 2020 the municipality was required to contribute 10 percent of compensation for employees hired prior to 2011 and 5 percent of compensation to employees hired after 2011. As of December 31, 2021, the plan had nine active members and two terminated members eligible for vested benefits in the future.

MOUNT PLEASANT TOWNSHIP BOARD OF SUPERVISORS
MONEY PURCHASE PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Recommendation

Mount Pleasant Township has partially complied with the prior recommendation concerning the following:

- Allocation Of State Aid In Excess Of Entitlement

The township re-allocated \$2,204 and \$6,533 to the township's police pension plan representing the excess state aid originally allocated to the plan in excess of its pension costs during the years 2014 and 2017, respectively. However, a similar condition occurred during the current audit period as further discussed in Finding No. 1 contained in this report.

Noncompliance With Prior Recommendation

Mount Pleasant Township has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

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

MOUNT PLEASANT TOWNSHIP BOARD OF SUPERVISORS
MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: As disclosed in the prior audit report, the township failed to ensure that data reported on the Certification Forms AG 385 (AG 385) filed in 2015 and 2018 was accurate and complied with the instructions accompanying the annual forms resulting in an underpayment of state aid. Although the state aid underpayment was subsequently allocated to the township in January 2019, a similar condition occurred during the current audit period. The township failed to certify an eligible non-uniformed employee and understated payroll by \$37,439 and \$42,202 on the AG 385s filed in 2019 and 2020, respectively. The individual was inadvertently certified as a member of a firefighter pension plan even though the township did not maintain such a pension plan. Conversely, the township also certified two ineligible police officers and overstated payroll by \$64,087 on the AG 385 for 2020. Although these police officers were hired on February 18, 2019, and May 6, 2019, due to a one-year probationary period contained in the collective bargaining agreement, these individuals did not become active members of the pension plan until February 18, 2020, and May 6, 2020, respectively, and therefore were not eligible for certification during 2020 according to Act 205.

Furthermore, on the AG 385 Form filed in 2021, the township again certified two employees as firefighters in the non-existent firefighter's pension plan and overstated total payroll by \$58,791. However, one of the individuals should have been classified as an eligible non-uniformed plan participant with eligible payroll amounting to \$29,506 while the other individual, with reported payroll of \$19,590, terminated employment with the township prior to becoming an eligible participant in the non-uniformed pension plan. Additionally, the township included an additional ineligible non-uniformed member and payroll of \$9,695 on the AG 385 submitted during 2021. The data contained on these certification forms 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: The township again failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of reported data prior to submission. In addition, the township experienced a high rate of turnover of plan officials serving in the position of Secretary/Treasurer responsible for the chief administrative officer responsibilities (*Note: At its January 6, 2003, Board of Township Supervisor Annual Reorganization Meeting, the township appointed whoever is the Secretary/Treasurer as the Chief Administrative Officer of the Township Pension Plan*). During the years 2018 through 2022, there were three different township officials who served in that capacity, each of whom filed the applicable AG-385 forms during that timeframe.

MOUNT PLEASANT TOWNSHIP BOARD OF SUPERVISORS
MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because state aid allocations were based on pension costs, the township received an underpayment of state aid as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2019	Non-Uniformed	8.45%	\$ (37,439)	\$ (3,164)
2020	Police	9.60%	64,087	6,152
	Non-Uniformed	10.00%	(42,202)	(4,220)
2021	Non-Uniformed	10.00%	(29,506)	<u>(2,951)</u>
Net Underpayment of State Aid				<u>\$ (4,183)</u>

Although, the township will be reimbursed for the total net underpayment of state aid due to township’s certification errors, the full amount of the 2019, 2020 and 2021 state aid allocations were not available to be deposited timely and therefore were not available to fund benefits, pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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: The township provided the following response, which is included verbatim:

I realize corrections needed made. However, I believe that the language should indicate that the Township did eventually correct our submissions, which it does not.

Auditor’s Conclusion: Based on the management response, the department acknowledges the township’s position and although officials attempted to correct the inaccuracies for 2020 and 2021, the revisions were not submitted timely and state aid was distributed based on the originally filed AG 385s. In July 2022, however, the township submitted a revised AG 385 form to the Commonwealth and received their correct allocation of state aid during 2022. Continued compliance will be evaluated during our next audit of the plan.

MOUNT PLEASANT TOWNSHIP BOARD OF SUPERVISORS
MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Partial Compliance With Prior Recommendation – Allocation Of State Aid
In Excess Of Entitlement**

Condition: As disclosed in the Status of Prior Findings contained in this report, the township partially complied with the prior recommendation by re-allocating the excess state aid to the township’s police pension plan. However, a similar condition occurred during the current audit period. The township allocated state aid to the non-uniformed pension plan in excess of the plan’s defined contribution pension costs under Act 205 during 2020, as illustrated below:

State aid allocation	\$ 22,915
Less: Actual municipal pension costs	<u>(21,214)</u>
Excess state aid	<u>\$ 1,701</u>

Criteria: As previously disclosed, 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.

Cause: There was recent turnover in the position charged with administering the daily operations of the pension plan and the township again lacked adequate procedures to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs.

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.

MOUNT PLEASANT TOWNSHIP BOARD OF SUPERVISORS
MONEY PURCHASE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that municipal officials re-allocate excess state aid amounting to \$1,701, to the township's defined benefit police pension plan.

In addition, we again recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and municipal contributions made to the pension plan with the pension plan's defined contribution pension costs.

Management's Response: The township provided the following response:

The consulting firm will wait to see the language in your final report to determine exactly what action should be taken at that time.

Auditor's Conclusion: Based on the management response, it appears that the township intends to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

MOUNT PLEASANT TOWNSHIP BOARD OF SUPERVISORS
MONEY PURCHASE PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 23,243	\$ 2,674
2017	26,764	910
2018	22,043	7,135
2019	25,825	1,065
2020	22,915	None
2021	30,646	\$ 7,314

MOUNT PLEASANT TOWNSHIP BOARD OF SUPERVISORS
MONEY PURCHASE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Gary Farner
Chairman, Board of Township Supervisors

Ms. Darla Protch
Township Manager

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.