

# COMPLIANCE AUDIT

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## Reserve Township Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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May 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 Commissioners  
Reserve Township  
Allegheny County  
Pittsburgh, PA 15212

We have conducted a compliance audit of the Reserve Township Non-Uniformed 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 findings 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.
- 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.
- 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 determined whether retirement benefits calculated for the plan member who retired and the plan members who elected to vest 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 recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to recipients.
- We determined whether the January 1, 2019 and January 1, 2021 reports 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.

Reserve Township contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 Reserve Township Non-Uniformed 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.

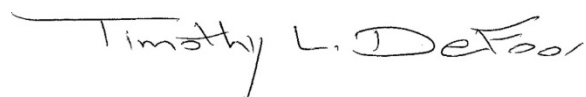
The results of our procedures indicated that, in all significant respects, the Reserve Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following 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 – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation Resulting In Overpayment Of State Aid
- Finding No. 3 – Incorrect Pension Calculation

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has 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 recommendations 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 Reserve 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 31, 2023

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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 Reserve Township Non-Uniformed 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 Reserve Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 597, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established July 15, 1974. Active members are required to contribute three percent of compensation to the plan. As of December 31, 2021, the plan had six active members, three terminated members eligible for vested benefits in the future, and ten retirees receiving pension benefits from the plan.

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Reserve Township has complied with the prior recommendation concerning the following:

- Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

During the current audit, the township paid the interest due to the non-uniformed pension plan for the untimely payment of the 2014 minimum municipal obligation.

Noncompliance With Prior Recommendation

Reserve Township has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

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

RESERVE TOWNSHIP NON-UNIFORMED 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: The prior report disclosed that the township reported incorrect data on the Certification Form AG 385 filed in 2017, resulting in an underpayment of state aid in the amount of \$7,154. This amount was subsequently allocated to the township in September 2018. During and subsequent to the current audit period, municipal officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

During the current audit period, the township overstated a non-uniformed employee's payroll by \$6,089 on the Certification Form AG 385 filed in 2019 by including short term disability wages and also failed to certify an eligible police officer (2 units) and understated payroll by \$46,795 on the Certification Form AG 385 filed in 2021 by not including a full-time plan member who worked six consecutive months in 2020.

In addition, subsequent to the current audit period, the township failed to certify an eligible police officer (2 units) and understated payroll by \$67,537 on the Certification Form AG 385 filed in 2022 by not including a full-time plan member who worked six consecutive months in 2021. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

In addition, 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: Due to recent turnover in personnel responsible for the administration of the plan, current plan officials did not know why the errors occurred. In addition, plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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.



RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

The township’s 2019 state aid allocation was based on pension costs. Therefore, the township received an overpayment of state aid in 2019 as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Normal Cost*</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2019	Non-Uniformed	14.5128%	\$ 6,089	\$ 884

*\*The Normal Cost percentage was adjusted to reflect the percentage it would have been if member contributions had been reported accurately on the 2017 actuarial valuation report, as referred to in Finding No. 2.*

Because the township’s 2021 and 2022 state aid allocations were based on unit value, the township received underpayments of state aid in those years as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2021	Police	2	\$ 4,797	\$ 9,594
2022	Police	2	\$ 5,180	\$ 10,360

Therefore, as a result of the certification errors, the township received a net underpayment of state aid in the amount of \$19,070 in the years 2019, 2021, and 2022; however, when combined with the excess state aid identified in Finding No. 2, the net effect of these two findings is a net underpayment of state aid in the amount of \$6,933 which will be allocated to the township.

Recommendation: We again 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: We are concerned that the municipality has not complied with the prior recommendation and encourage compliance at the earliest opportunity to do so.

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation Resulting In An Overpayment Of State Aid**

Condition: Actuarial valuation report form 203C, for the non-uniformed pension plan, with a valuation date of January 1, 2017, submitted to the Municipal Pension Reporting Program, contained incorrect information. The township incorrectly reported \$0 on Line 56 when the actual amount of member contributions was \$5,741.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: Due to recent turnover in personnel responsible for the administration of the plan, current plan officials did not know why the error occurred. In addition, plan officials failed to establish adequate internal control procedures to ensure the actuarial valuation report contained correct data.

Effect: Because the municipality’s state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in the municipality receiving state aid allocations for the years 2018 and 2019 incorrectly based on a normal cost percentage of 18.0588%, instead of 14.5128%. As a result, the township received excess state aid in the total amount of \$12,132, calculated as follows:

	Normal Cost	Payroll	Funding Adjustment	State Aid Entitlement (a)	State Aid Received (b)	Excess State Aid (b)-(a)
2018	14.5128%	\$ 189,550	\$ 16,987	\$ 10,522	\$ 17,244	\$ 6,722
2019	14.5128%	152,952	16,980	5,218	10,628	5,410
			Total	\$ 15,740	\$ 27,872	\$ 12,132

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Due to this certification error, the township received excess state aid totaling \$12,132 in 2018 and 2019; however, when combined with the net underpayment of state aid identified in Finding No. 1, the net effect of these two findings is a net underpayment of state aid in the amount of \$6,938, which will be allocated to the township.

Recommendation: We recommend that, in the future, plan officials review and verify all information submitted to the Municipal Pension Reporting Program so that future actuarial valuation reports properly reflect the status of the pension plan.

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 – Incorrect Pension Calculation**

Condition: The pension benefit for a member of the pension plan who retired from employment with the township on December 1, 2018 was incorrectly determined because municipal officials used inaccurate payroll figures in calculating the member’s last 36 months of employment.

Criteria: The pension plan’s Adoption Agreement, at Section 4.01, states, in part:

Accrued Benefit. An active Participant’s monthly Accrued Benefit as of any date ... will be equal to the product of (a) and (b) below:

- (a) An amount equal to 2.5% of his Average Compensation.
- (b) His Accrual Service (not to exceed 40 years) on such date.

Also, the pension plan’s Adoption Agreement at Section 1.02, states:

AVERAGE COMPENSATION means, on any given date, the average of an Employee’s Monthly Compensation on the 36 latest Compensation Dates, (all Compensation Dates if less than this number) occurring before such given date.

Cause: Due to recent turnover in personnel responsible for the administration of the plan, current plan officials did not know why the error occurred. Also, municipal officials lacked adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan’s governing document.

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Effect: The plan is paying a greater benefit than what is authorized by the plan's governing document. Based on an estimate by the Department, the retiree is receiving a greater benefit of approximately \$135 per month.

Recommendation: We recommend that municipal officials recalculate and adjust the retiree's pension benefit using the correct payroll earned during the retirees last 36 months of employment. In addition, we recommend that the pension plan be reimbursed for the unauthorized pension payments. This amount should include interest compounded annually from the date of the benefit payment to the date of the reimbursement, at a rate earned by the pension plan.

We also recommend that in the future, plan officials establish adequate internal control procedures, to ensure subsequent pension benefits are determined in accordance with the plan's governing document.

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.

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 1,409,006	\$ 1,239,140	\$ (169,866)	113.7%
01-01-19	1,428,821	1,573,190	144,369	90.8%
01-01-21	1,503,602	1,708,387	204,785	88.0%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2016	\$ 26,175	123.9%
2017	20,668	134.6%
2018	6,420	268.6%
2019	21,984	100.0%
2020	24,093	327.0%
2021	88,484	100.0%

RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.75%



RESERVE TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**Mr. Ronald Neurohr**  
President, Board of Township Supervisors

**Ms. Jan Kowalski, CPA**  
Township Manager

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