

COMPLIANCE AUDIT

Springfield Township Non-Uniformed Pension Plan Fayette County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

May 2024



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
Springfield Township
Fayette County
Mill Run, PA 15464

We have conducted a compliance audit of the Springfield Township Non-Uniformed Pension Plan for the period January 1, 2019 to December 31, 2022. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2022, 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, 2017 to December 31, 2022, 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, 2019 and January 1, 2021 actuarial valuation 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Springfield 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.

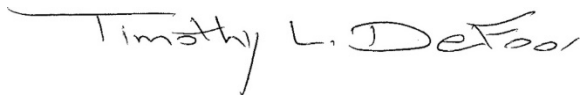
The results of our procedures indicated that, in all significant respects, the Springfield Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

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

Finding No. 2 – Failure To Properly Fund Member Accounts

Finding No. 3 – Improper Distribution From Allocated Insurance Contracts

The contents of this report were discussed with officials of Springfield 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 from the start of the name.

Timothy L. DeFoor
Auditor General
March 20, 2024

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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 two 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 Springfield 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 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 Springfield Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution dated January 7, 2002. Active members are not required to contribute to the plan. The municipality is required to contribute \$1,700 per member per year. As of December 31, 2022, the plan had three active members.

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

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

- Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

The township returned the overpayment of state aid totaling \$1,700 to the Commonwealth.

Noncompliance With Prior Audit Recommendation

Springfield Township has not complied with the prior audit 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

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: Our prior audit report disclosed that the township reported incorrect data on the Certification Form AG 385 filed in 2018, resulting in an underpayment of state aid. During the current audit period, the township again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data. The township overcertified payroll by \$353 on the Certification Form AG 385 filed in 2021 and understated payroll by \$22,191 on the Certification Form AG 385 filed in 2022. 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.

Cause: Due to a recent turnover in personnel responsible for the administration of the plan, current officials did not have a thorough understanding of the Certification Form AG 385 instructions. Additionally, the township failed to establish adequate internal control procedures, such as having at least two people review the data certified, to ensure the accuracy of the data certified and compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required data.

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 plan. Because the township’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2021	.04558%	\$ 353	\$ 16
2022	.04949%	(22,191)	<u>(1,098)</u>
Net Underpayment of State Aid			<u>\$ (1,082)</u>

Although the additional state aid will be allocated to the township, the full amount of the 2022 state aid allocation was not available to be deposited timely and therefore was not available to fund benefits, pay operating expenses, or for investment.

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that 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. We also recommend that officials develop procedures to address turnover in positions that play a key role in plan administration.

Management Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance with be evaluated during our next audit of the plan.

Finding No. 2 – Failure To Properly Fund Member Accounts

Condition: The township failed to properly fund members’ accounts in 2020, 2021, 2022, and 2023, as illustrated below:

<u>2020 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess (Due)</u>
1	\$ 1,700	\$ 3,400	\$ 1,700
2	1,700	3,400	<u>1,700</u>
			<u><u>\$ 3,400</u></u>
<u>2021 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess (Due)</u>
1	\$ 1,700	\$ 1,729	\$ 29
2	1,700	1,729	29
3	1,700	1,729	29
4	1,700	-	<u>(1,700)</u>
			<u><u>\$ (1,613)</u></u>

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

<u>2022</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Contributions</u> <u>In Excess (Due)</u>
1	\$ 1,700	\$ 1,549	\$ (151)
2	1,700	1,549	(151)
3	1,700	1,549	(151)
4	1,700	-	(1,700)
			<u>\$ (2,153)</u>
<u>2023</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Contributions</u> <u>In Excess (Due)</u>
1	\$ 1,700	\$ 1,903	\$ 203
2	1,700	1,903	203
3	1,700	1,903	203
4	1,700	-	(1,700)
			<u>\$ (1,091)</u>

Criteria: The plan’s governing document, states, in part:

...the township will pay \$1,700.00 a year for each full-time employee.

Cause: Due to recent turnover in plan officials responsible for administration of the plan, current officials were not familiar with the reconciliation process. In addition, township officials failed to establish adequate internal control procedures to ensure that eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The failure to properly fund members’ accounts results in certain plan members receiving benefits in excess of those to which they are entitled and other members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Furthermore, due to the township’s failure to properly fund the accounts of several members, the township must now pay interest on the delinquent contributions.

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document. A copy of interest paid on contributions due should be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials implement adequate internal control procedures to ensure that, in the future, members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

Management Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance with be evaluated during our next audit of the plan.

Finding No. 3 – Improper Distributions From Allocated Insurance Contracts

Condition: In 2019, an active plan member, who was a township supervisor, received an \$11,000 distribution from his allocated insurance contract, and in 2021, another active plan member, who was also a township supervisor, received a \$12,000 distribution from his allocated insurance contract. These withdrawals were initiated by the respective supervisors in their capacity as trustees of the pension plan.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments and not to be used for distributions to active members of a pension plan prior to their termination of employment.

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Plan officials were unaware that allocated insurance contracts maintained to fund pension benefits should not be wholly or partially cash surrendered to active members of the pension plan prior to their termination of employment.

Effect: Although the plan members were fully vested in their account balances, distributions from allocated insurance contracts prior to retirement violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of an annuitant, and undermines the integrity of the pension plan.

Recommendation: We recommend that the township establish adequate internal control procedures to ensure that benefit distributions are not made to active members prior to their termination of employment. These controls could include obtaining approval from the township's board of auditors for all plan withdrawals since the township supervisors are active members of the plan.

Management Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance with be evaluated during our next audit of the plan.

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

Year Ended December 31	State Aid	Employer Contributions
2017	\$ 4,731	\$ 369
2018	5,100	None
2019	5,100	None
2020	5,100	3,400
2021	5,186	None
2022	4,648	None

SPRINGFIELD 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. Ross Miner
Chairman, Board of Township Supervisors

Mr. Roy Bowser
Township Supervisor

Mr. Brian Nicholson
Township Supervisor

Ms. Stephanie S. Cain
Secretary

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