

# COMPLIANCE AUDIT

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## Union Township Non-Uniformed Cash Balance Pension Plan

Washington County, Pennsylvania  
For the Period  
January 1, 2016 to December 31, 2019

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December 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Union Township  
Washington County  
Finleyville, PA 15332

We have conducted a compliance audit of the Union Township Non-Uniformed Cash Balance Pension Plan for the period January 1, 2016 to December 31, 2019. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings 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.
- 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 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 also tested individual voluntary employee contributions made during the audit period for the 2 active employees employed during the year 2016 totaling \$9,643, for 2 of the active employees employed during the year 2017 totaling \$5,404, and for 1 of the active employees employed during the years 2018 and 2019 totaling \$1,925 and \$1,694, respectively.
- We determined whether retirement benefits calculated for the plan member who retired 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- We determined whether the January 1, 2017 actuarial valuation report was prepared and submitted by March 31, 2018, in accordance with Act 205 and whether selected information provided on this report 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.

Union Township contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2016, 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.

The Union Township Non-Uniformed Cash Balance Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Union Township Non-Uniformed Cash Balance 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 objective.

The results of our procedures indicated that, in all significant respects, the Union Township Non-Uniformed Cash Balance 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 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 2 – Failure To File Actuarial Valuation Report
- Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

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 Union 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.

November 9, 2020



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement.....	2
Finding No. 2 – Failure To File Actuarial Valuation Report .....	3
Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan .....	5
Potential Withhold of State Aid.....	7
Supplementary Information .....	8
Report Distribution List .....	9

## 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 Union Township Non-Uniformed Cash Balance 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Union Township Non-Uniformed Cash Balance Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2011-3 and a separately executed plan agreement with the plan's custodian, adopted pursuant to Act 15. The plan was established January 1, 2011. Active members are not required to contribute to the plan. The municipality is required to contribute \$750 per member per quarter. As of December 31, 2019, the plan had 1 active member and 1 retiree receiving pension benefits.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement**

Condition: The township received state aid in excess of the non-uniformed pension plans’ annual pension costs in the years 2017 and 2019, partly due to the availability of a terminated member’s forfeiture, as illustrated below:

	<u>2017</u>	<u>2019</u>
State aid allocation	\$ 21,722	\$ 26,412
Forfeitures available – Non-Uniformed Cash Balance Plan	-	5,250
Actual municipal pension costs – Non-Uniformed Cash Balance Plan	(5,330)	(5,250)
Actual municipal pension costs – Non-Uniformed Union Plan	<u>(10,881)</u>	<u>(19,676)</u>
Excess state aid	<u>\$ 5,511</u>	<u>\$ 6,736</u>

In addition, as of the date of our audit fieldwork completion, \$3,812 of the 2017 excess state aid and all of the 2019 excess state aid remains in the township’s general fund and has not been deposited into the pension plans according to municipal records.

Criteria: 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: The township experienced a high rate of turnover in personnel responsible for the administration of the plan and current plan officials are uncertain of the cause. In addition, plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plans actual defined contribution pension costs.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Effect: It is this department's opinion that because 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. Consequently, the overpayment of state aid in the years 2017 and 2019 must be returned to the Commonwealth for redistribution.

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality return the \$12,247 of excess state aid received in the years 2017 and 2019 to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

**Finding No. 2 – Failure To File Actuarial Valuation Report**

Condition: Actuarial valuation report Form Type A for the non-uniformed cash balance pension plan with a valuation date of January 1, 2019, was not submitted to the Municipal Pension Reporting Program by the March 31, 2020, deadline, as required by Act 205, and remained delinquent at the completion of our audit fieldwork.



UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Cause: The township experienced a high rate of turnover in personnel responsible for the administration of the plan and current plan officials are not familiar with the applicable Act 205 filing guidelines.

Effect: Data from the January 1, 2019 Act 205 actuarial valuation reports is necessary to calculate the township's 2020 state aid allocation; therefore, the township's 2020 state aid allocation cannot be calculated and released until the necessary reports are filed for both the non-uniformed cash balance pension plan and the non-uniformed union pension plan. In addition, the township may receive less state aid than it would have received had the reports been filed in a timely manner.

Recommendation: We recommend that the municipality take immediate action to complete the January 1, 2019 Act 205 actuarial valuation report which was due by March 31, 2020 and submit it to the Municipal Pension Reporting Program. By submitting the report as soon as possible, the municipality can minimize the length of time the pension aid will be withheld due to the delinquent filing of the required report.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Furthermore, to insure that future actuarial filing deadlines are met and to improve pension plan administration, we recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

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 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan**

Condition: The township's record-keeping system did not provide effective control over the transactional activity of the non-uniformed cash balance pension plan during 2019. Municipal officials were unable to furnish annual financial statements or custodial account transaction statements for the non-uniformed cash balance pension plan. These annual financial and account statements have historically been provided by the plan's custodian, PMRS. However, as of the date of this report, annual financial and accounting statements summarizing the pension account activity have not been provided for the year 2019.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials indicated that the plan's custodian, PMRS, failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2019. In addition, municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of the individual transactions tested during performance of the audit for the year 2019, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations. Additionally, inadequate monitoring of the pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account of the non-uniformed cash balance pension plan for the year 2019 to ensure the accuracy and propriety of the transaction activity. In addition, we recommend that municipal officials establish and maintain a financial record-keeping system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures.

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

Auditor’s Conclusion: PMRS has indicated that they are in the process of preparing 2019 Year-End Financial Activity Reports and Annual Member Statements for all municipalities. PMRS has also indicated that they recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. This transition in addition to disruptions in normal government operation due to COVID-19 has resulted in a three to four month delay in the 2019 year-end reporting process. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of \$12,247, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll***	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 3,790	\$ 1,540	\$ 2,250	\$ 43,404	3.55%
2015	5,823	2,011	3,812	92,018	2.19%
2016	6,040	6,040	-	96,434	6.26%
2017	5,290	7,029	(1,739)	93,679	7.50%
2018	4,630	40	4,590	93,301	0.04%
2019	5,250	-	5,250		

\* The Statutorily Required Contribution is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

\*\* The Statutorily Required Contribution and the actual Contribution were provided by PMRS. Deviation between these amounts may be due to or transfers from the municipal reserve account.

In 2017, the township met the plan's \$5,290 funding requirement through the deposit of \$7,029 in state aid (*See Finding No. 1*).

In 2018, the township met the plan's \$4,630 funding requirement through the deposit of \$40 in employer contributions and \$4,590 in terminated employee forfeitures.

In 2019, the township met the plan's \$5,250 funding requirement by applying terminated employee forfeitures. However, we were unable to verify total deposits due to 2019 PMRS custodial transaction statements being unavailable as of the date of this report (*see Finding No. 3*).

\*\*\* Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Ms. Heather Daerr**  
Chairman, Board of Township Supervisors

**Ms. Roberta Singer**  
Secretary/Assistant Treasurer

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).