

# COMPLIANCE AUDIT

---

## Warrington Township Non-Uniformed Employees Defined Contribution Pension Plan Bucks County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

---

July 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  
Warrington Township  
Bucks County  
Warrington, PA 18976

We have conducted a compliance audit of the Warrington Township Non-Uniformed Employees Defined Contribution 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 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 also tested individual employee contributions for all 15 active employees employed during the audit period amounting to \$13,003, \$25,154, \$25,303, and \$33,096, for the years 2016, 2017, 2018, and 2019, respectively, made during the 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, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020 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 Warrington Township Non-Uniformed Employees Defined Contribution 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 Warrington Township Non-Uniformed Employees Defined Contribution 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 – Partial Compliance With Prior Recommendation - Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System

The contents of this report were discussed with officials of Warrington Township and, where appropriate, their responses have been included in the report.

July 22, 2020



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Status Of Prior Finding.....	2
Findings And Recommendations:	
Finding No. 1 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid.....	3
Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System.....	5
Summary Of Deposited State Aid And Employer Contributions.....	6
Report Distribution List.....	7

## 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 Warrington Township Non-Uniformed Employees Defined Contribution 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 Warrington Township Non-Uniformed Employees Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance 2014-O-10, for employees hired or who opt in after May 13, 2014. The plan was established May 13, 2014. Active members are required to contribute up to 5 percent of compensation to the plan. The municipality is required to contribute up to 7 percent of compensation based on the amount the member contributes. As of December 31, 2019, the plan had 11 active members.

WARRINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES  
DEFINED CONTRIBUTION PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

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

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

During the current audit period, the township reimbursed \$36,009 to the Commonwealth for the overpayment of state aid received in 2015 and 2016; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2017 and 2018, as further discussed in the Findings and Recommendations section of this report.

WARRINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES  
DEFINED CONTRIBUTION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid**

Condition: As disclosed in the Status of Prior Findings section of this report, although the township partially complied with the prior audit recommendation by returning the overpayment of state aid received in 2015 and 2016 to the Commonwealth, a similar condition occurred during the current audit period. Plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2017 and 2018.

Township firefighters are members of the non-uniformed employees defined contribution pension plan and, as such, must be certified on the non-uniformed pension plan roster rather than on a firefighter pension plan roster when filing Certification Form AG 385. During the current audit period, the township certified 1 firefighter on a firefighter roster on the Certification Form AG 385 filed in 2017 and certified 2 firefighters on a firefighter roster on the Certification Form AG 385 filed in 2018. The data contained on these certification forms is based on prior calendar year information.

Criteria: The instructions accompanying Certification Form AG 385 prescribe the following criteria for certification purposes:

Uniformed Employee who is a Member of a Non-Uniformed Employee Plan:

- a. A paid firefighter or police officer who is a member of a non-uniformed plan must be reported under the Non-Uniformed Plan Type.

Cause: At the time of certification, plan officials did not realize that the firefighters should be certified on the non-uniformed roster. In addition, the township lacked adequate procedures such as having another individual review the accuracy of the data reported on the certification form prior to submission.

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. A firefighter in a firefighter pension plan counts for 2 units of state aid whereas a firefighter in a non-uniformed pension plan counts for 1 unit of state aid. In combination with other certified data, such as a date of establishment reported for the nonexistent firefighter plan, and because the township's state aid allocations were based on unit value, the incorrect certification of pension data affected the township's state aid allocations, as identified below:



WARRINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES  
DEFINED CONTRIBUTION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

<u>Year</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2017	(1)	\$ 4,588	\$ (4,588)
2018	2	\$ 4,684	\$ 9,368
Net Overpayment of State Aid			<u>\$ 4,780</u>

**Recommendation:** We recommend that the net overpayment of state aid, in the amount of \$4,780, plus interest, be returned 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 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. A copy of the interest calculation must be submitted along with the check.

Furthermore, 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.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed defined contribution pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

**Management’s Response:** We understand that there may have been an overpayment of state aid due to incorrect data and are prepared to refund any overpayment as required. Going forward, we will endeavor to review the AG 385 submission to ensure that it is completed properly and accurately.

**Auditor’s Conclusion:** Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

WARRINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES  
DEFINED CONTRIBUTION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System**

Condition: The pension plan’s record-keeping system did not establish adequate accounting procedures to allow plan officials to effectively monitor the pension plan’s financial operations. The deficiencies are as follows:

- Signed AXA custodial agreement was not maintained;
- 2019 AXA year end account statements were not maintained; and
- 2019 AXA individual member statements were not maintained.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities.

Effect: Although we were able to obtain copies from a third-party source in order to complete our audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations.

Recommendation: We recommend that plan officials establish and maintain a financial record-keeping system that allows plan officials to effectively monitor the plan’s financial operations. Plan 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 procedures.

Management’s Response: We will be developing internal procedures to improve our recordkeeping for pension plan participants including assuring that 457 and 401a contributions are tracked accurately and timely. We will use individual member statements to verify account balances for both the defined compensation plan (401a) and deferred compensation plan (457).

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

WARRINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES  
 DEFINED CONTRIBUTION PENSION PLAN  
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 7,982
2016	None	16,780
2017	None	28,469
2018	None	33,514
2019	None	16,144

Note: In 2019, the township met the plan's \$35,121 funding requirement through the deposit of \$16,144 in employer contributions and the allocation of \$18,977 in terminated employee forfeitures.

WARRINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES  
DEFINED CONTRIBUTION PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Mr. Fred Gaines**  
Chairman, Board of Township Supervisors

**Ms. Ruth Schemm**  
Vice-Chairwoman, Board of Township Supervisors

**Ms. Carol Baker**  
Township Supervisor

**Ms. Eileen Albillar**  
Township Supervisor

**Mr. Mark Lomax**  
Township Supervisor

**Mr. Barry P. Luber**  
Township Manager

**Ms. Amy Organek**  
Assistant Finance Director

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).