COMPLIANCE AUDIT

Winfield Township Non-Uniformed Pension Plan

Butler County, Pennsylvania

For the Period
January 1, 2017 to December 31, 2020

June 2021

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
Winfield Township
Butler County
Cabot, PA 16023

We have conducted a compliance audit of the Winfield Township Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2020. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 determined whether retirement benefits calculated for the plan member who retired, and the plan member 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 to the recipients.

- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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 Winfield 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 objective.

The results of our procedures indicated that, in all significant respects, the Winfield 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 finding further discussed later in this report:

Finding – Improper Pension Benefit Revision

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 Winfield 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

May 12, 2021

Timothy L. DeFoor
Auditor General

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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 Winfield 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 Winfield Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 01-3, as amended. The plan was established January 1, 2001 Active members are not required to contribute to the plan. As of December 31, 2020, the plan had 4 active members, 1 terminated member eligible for vested benefits in the future, and 2 retirees receiving pension benefits.

Finding – Improper Pension Benefit Revision

Condition: A non-uniformed employee, who separated from service with the township and made an election to vest on August 1, 2015, had his normal retirement date changed through the subsequent adoption of Resolution No. 2020-2, effective January 1, 2020, after separation. The participant's monthly pension benefit was to commence on January 1, 2023, *(after 10 years of service and at age 65, but no sooner than age 65 per Resolution #01-3 in effect at the time the election to vest was made by the member)* but was later changed to earlier than age 65 because the retirement age for a vested benefit was reduced to age 62 by Resolution No. 2020-2.

Section IV of Resolution No. 2020-2, states the following:

> Winfield Township Resolution 01-3 is amended by replacing the entirety of Section II… with the following:
>
> Section II: That said persons would be vested for said pension benefits after five (5) years of service as employees and at age sixty-two (62), whichever is the later date, but not sooner than age sixty-two (62) years.

As a result, the individual began receiving a vested pension benefit on March 1, 2020 instead of his normal retirement date of January 1, 2023 as originally determined by the township on the date of separation.

Criteria: In *Thelin v. Borough of Warren*, 544 A.2d 1135 (Pa. Cmwlth. 1988), a former chief of police asserted that his retirement benefits should be computed under an ordinance enacted after his separation from service. Citing *Koehnlein v. Allegheny County Employees' Retirement System*, 97 A.2d 88 (Pa. 1953), the *Thelin* Court concluded that a municipality may not increase a former employee's retirement benefits after the employee's municipal service has ended. "To do so could adversely affect a plan's actuarial soundness, thus depriving contributing members of their pension benefits." 544 A.2d at 1136.

In *Koehnlein,* the Court held that an Allegheny County ordinance raising retirees' pensions violated Article III, §11 of the Pennsylvania Constitution, which then provided that "No bill shall be passed giving any extra compensation to any public officer [or] employee…after services shall have been rendered or contract made…." In 1955, however, Section 11 was amended by the addition of the following proviso: "That nothing in this Constitution shall be construed to prohibit the General Assembly from authorizing the increase of retirement allowances or pensions of members of a retirement or pension system now in effect or hereafter legally constituted by the Commonwealth, its political subdivisions, agencies or instrumentalities, after the termination of the services of said member." In 1967, Section 11 was renumbered as Section 26.

<u>Finding – (Continued)</u>

Although *Thelin* was decided 33 years after Section 11 was amended to permit legislatively sanctioned increases in the pensions of terminated employees, the Court nonetheless considered *Koehnlein* to be good law with respect to municipalities. Indeed, a year after *Thelin* was decided, Commonwealth Court relied on both it and *Koehnlein* to reiterate the proposition that:

> A municipality cannot raise a former employee's retirement benefits after that employee's service to the municipality has ended because to do so could adversely affect the actuarial soundness of a pension plan, thus depriving contributing members of the pension benefits to which they are entitled. *McVay v. City of Washington*, 566 A.2d 367, 369 (Pa. Cmwlth. 1989).

Therefore, it is the opinion of this department that a municipality cannot amend a former employee's benefit calculation to reflect newly adopted pension benefits after that employee's service to the municipality has ended.

<u>Cause</u>: Plan officials were unaware that an employee's pension benefits could not be changed to reflect new benefits adopted after the employee's service to the municipality has ended.

<u>Effect</u>: The plan is currently paying excess pension benefits to a retiree and, in the future, may have to pay excess pension benefits to a surviving spouse. As of the date of this report, the retiree is receiving excess benefits of $429 per month, which totaled approximately $6,435 from date of the retiree's eligibility to receive benefits through the date of this report.

<u>Recommendation</u>: We recommend that, to the extent that the municipality is contractually obligated to pay excess pension benefits to existing retirees, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. In such case, the plan's actuary may be required to determine the impact of the improper benefits on the plan's future state aid allocations and submit this information to the Department.

<u>Management's Response</u>: Municipal officials agreed with the finding without exception.

<u>Auditor's Conclusion</u>: Compliance will be evaluated during our next audit of the plan.

WINFIELD 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, 2015, 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)
01-01-15	$ 135,882	$ 158,400	$ 22,518	85.8%
01-01-17	173,937	192,215	18,278	90.5%
01-01-19	213,613	194,284	(19,329)	109.9%

WINFIELD 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.

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

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll *	Contributions as a Percentage of Covered-Employee Payroll
2011	$ 7,630	$ 7,630	$ -	$ -	
2012	11,666	11,666	-	99,406	11.74%
2013	10,562	10,562	-	-	
2014	11,751	11,751	-	157,327	7.47%
2015	16,681	16,681	-	147,258	11.33%
2016	16,511	17,499	(988)	164,469	10.64%
2017	22,329	22,329	-	169,975	13.14%
2018	18,825	18,825	-	88,387	21.30%
2019	11,267	11,267	-	161,895	6.96%
2020	14,230	14,771	(541)		

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2015. In addition, due to the timing of this audit, covered-employee payroll for 2020 was not provided in this schedule.

WINFIELD 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, 2019
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%

WINFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Matthew Klabnik
Chairman, Board of Township Supervisors

Mr. Glen Nagle
Vice Chairman, Board of Township Supervisors

Ms. Rachel Altman
Township Secretary

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.