

COMPLIANCE AUDIT

Greenfield Township Police Pension Plan Lackawanna County, Pennsylvania For the Period January 1, 2016 to November 10, 2020

January 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL**

Board of Township Supervisors
Greenfield Township
Lackawanna County
Greenfield Township, PA 18407

We have conducted a compliance audit of the former Greenfield Township Police Pension Plan for the period January 1, 2016 to November 10, 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding 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 finding 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 the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the former Greenfield Township Police Pension Plan was 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 former Greenfield Township Police 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 – Noncompliance With Prior Recommendation – Failure To Properly
Dispose Of Life Insurance Policy

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 Greenfield 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.

October 14, 2020



EUGENE A. DEPASQUALE
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 Greenfield Township Police 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943 (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1 et seq.

The Greenfield Township Police Pension Plan was a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 92-2 of 1992, as amended, adopted pursuant to Act 120. As of November 10, 2020, the plan had no active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits from the plan. Additionally, the township enacted Ordinance No. 11-10-2020 which effectively rescinded Ordinance No. 92-2 of 1992, which previously authorized the creation of the Greenfield Township Police Pension Plan.

GREENFIELD TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Greenfield Township has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Properly Dispose Of Life Insurance Policy

GREENFIELD TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Recommendation – Failure To Properly Dispose Of Life Insurance Policy

Condition: As disclosed in the prior audit report, the township’s last active police officer was granted a pension benefit in April 2003, pursuant to the township’s fully insured defined benefit pension plan. The township surrendered 2 insurance policies to fund the pension benefits due the retiree. However, an additional life insurance policy, which was owned by the township and purchased previously with pension plan funds, had not been properly disposed of by the township upon retirement of the individual. It was previously recommended in prior audit reports that the township surrender the life insurance policy and deposit the proceeds into a pension plan account. Additionally, it was also recommended that officials, with assistance from its solicitor, determine whether there were any additional benefits due to the retiree and if any, pay any such pension benefits from the pension plan. However, the township again failed to surrender the policy and deposit the proceeds into the pension plan. Subsequently, during the current audit period, the insured retiree passed away and proceeds from the policy in the amount of \$86,655 were disbursed to the beneficiary of the retiree on November 7, 2019.

Criteria: Act 205 at Section 102 states, in part:

“Fully insured pension plan.” A pension plan for which an insurance carrier has, or a number of insurance carriers have, underwritten the total actuarial accrued liability of the benefit plan.

Pursuant to this funding arrangement, the insurance policies purchased and maintained on each active member are to be used to provide pension benefits.

In addition, the Department of the Auditor General previously issued several bulletins providing guidance regarding the life insurance purchases by municipal pension plans. In 1985, Auditor General Municipal Pension Bulletin No. 2-85, “Purchase of Life Insurance for Municipal Pension Plans,” was issued. This bulletin disallowed any further purchase of life insurance with pension funds after January 1, 1986, but did allow the continuance of existing policies. Subsequently, in 1988, Auditor General Municipal Pension Bulletin No. 6-88, “Purchase of Insurance Coverage,” was issued and restated this position, by stating, in part:

Because the primary purpose of these policies is to fund death benefits rather than periodic retirement benefits, general municipal pension system state aid cannot be used to pay life insurance.

GREENFIELD TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, Bulletin No. 6-88 states, in part:

To avoid the losses which might be sustained by municipal pension plans that previously invested in life insurance policies, we will not object to the continued payment of premiums for existing policies which were previously authorized (i.e. grandfathering). However, we would recommend cash surrender of such policies or conversion to annuities at the time when the optimum return is available. As an alternative, the municipality could transfer existing life insurance policies from the pension plan to a municipal general fund provided the pension plan is adequately compensated.

Cause: Despite multiple recommendations from this Department, Greenfield Township Supervisors maintain that it was the township's intent to honor the request of the retired police officer, at the time of his retirement, to maintain the life insurance policy with the payment to be made to his beneficiary upon his death.

Effect: The township's failure to properly dispose of the life insurance policy resulted in the retiree's beneficiary receiving a benefit which was not authorized under Act 205 and/or the plan's governing document. Since the premiums paid for the life insurance policy were funded with pension plan assets comprised primarily of state aid, and since the distribution to the beneficiary represented death benefits and not periodic retirement benefits, state aid was not used for its intended purpose under Act 205. Based on available pension plan records, it was determined that life insurance premiums totaling \$31,225 were paid on the policy from the pension plan representing state aid since enactment of Act 205.

Furthermore, although this pension plan is now rescinded, since the township maintains another pension plan for its non-uniformed employees, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the township reimburse \$31,225, plus interest compounded annually from the date the individual retired, April 30, 2003, to the date of repayment, to the Commonwealth. A check in this amount 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.

GREENFIELD TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Preliminary responses from the township indicate that prior plan officials, responsible for administration of the pension plan, never made anyone at the township aware of any previous audit report findings or potential amounts due back to the Commonwealth by reasons of the improper allocation of funds towards insurance contracts. However, current officials, along with assistance from their solicitor, are in the process of researching municipal records and investigating information relative to the issue presented and further indicated that a formal response would be provided. However, efforts to expedite the matter have been hampered given the time of year and the current state of government affairs due to the ongoing pandemic issue.

Auditor's Conclusion: Based on the response, although the municipality did not provide a written response as of the date of issuance of this report, any corresponding response to the finding provided by officials subsequent to report issuance will be given due consideration upon receipt and compliance will be evaluated during our next audit of the township's non-uniformed pension plan, accordingly.

GREENFIELD TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites a repayment due to the Commonwealth in the amount of \$31,225, 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.

GREENFIELD TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Susanne Totsky
Chairperson, Board of Township Supervisors

Mr. Michael Mancuso
Treasurer

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.