

# COMPLIANCE AUDIT

---

## West Vincent Township Non-Uniformed Pension Plan Chester County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

---

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  
West Vincent Township  
Chester County  
Chester Springs, PA 19425

We have conducted a compliance audit of the West Vincent Township Non-Uniformed 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 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 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, 2014 to December 31, 2019, 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, 2014 to December 31, 2019, 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 whether retirement benefits calculated for the plan members who retired and received a lump-sum distribution 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 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 West Vincent 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 West Vincent 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 2 – Failure To Properly Fund Members' Accounts
- Finding No. 3 – Allocation Of State Aid In Excess Of Entitlement
- Finding No. 4 – Failure To Implement Mandatory Act 205 Provisions For The Procurement Of Professional Services

The contents of this report were discussed with officials of West Vincent 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 18, 2020



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.....	3
Finding No. 2 – Failure To Properly Fund Members’ Accounts .....	4
Finding No. 3 – Allocation Of State Aid In Excess Of Entitlement .....	7
Finding No. 4 – Failure To Implement Mandatory Act 205 Provisions For The Procurement Of Professional Services .....	9
Summary of Deposited State Aid and Employer Contributions.....	11
Report Distribution List .....	12

## 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 West Vincent 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 West Vincent Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 42-2007, as amended, and a separately executed plan agreement effective January 1, 2016. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established May 1, 1994. Active members are not required to contribute to the plan. During 2016, the municipality was required to contribute 7.22 percent of each member's base salary. During 2017, 2018, and 2019, the municipality was required to contribute 5 percent of each member's base salary. As of December 31, 2019, the plan had 10 active members and 2 terminated members eligible for vested benefits in the future.

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

West Vincent Township has complied with the prior recommendation concerning the following:

- Improper Distributions To Active Employees

During the current audit period, there were no hardship distributions made from the members' accounts which are funded with state aid.

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The township certified an ineligible non-uniformed employee and overstated payroll by \$45,922 on Certification Form AG 385 filed in 2020. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months prior to December 31 preceding the date of certification and must have been participating in a pension plan during the certification year.

In addition, the township employee manual categorizes full-time employees as any employee who is scheduled to work an average of 40 hours per week; all other employees shall be considered part-time employees.

Cause: The certification of the part-time employee was attributable to an oversight. Additionally, the township lacked adequate internal control procedures, such as having another individual review the data certified to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on pension cost, the incorrect certification of pension data resulted in an overpayment of state aid, as identified below:

Year	Normal Cost	Payroll Overstated	State Aid Overpayment
2020	5.0%	\$ 45,922	\$ 2,296

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.



WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the overpayment of state aid, in the amount of \$2,296, 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: 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.

We also recommend that, in the future, plan officials establish adequate internal control procedures 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 pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management’s Response: Municipal officials agreed with the finding without exception. On October 28, 2020, the township remitted a check in the amount of \$2,296 to the Commonwealth.

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

**Finding No. 2 – Failure To Properly Fund Members’ Accounts**

Condition: During 2016 through 2019, the township did not properly fund members’ accounts, as illustrated below:

<u>2016 Employee</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due (In Excess)</u>
1	\$ 4,169	\$ 4,074	\$ 95
2	4,514	4,481	33
3	2,151	2,133	18
4	3,680	3,499	181
		Total	<u>\$ 327</u>

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

<u>2017 Employee</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due (In Excess)</u>
1	\$ 2,975	\$ 2,918	\$ 57
2	3,219	3,158	61
4	2,620	2,495	125
5	2,477	2,523	(46)
6	4,714	4,644	70
7	2,422	2,347	75
8	2,898	2,441	457
9	2,747	2,654	93
10	2,185	2,392	(207)
		Total	<u>\$ 685</u>

<u>2018 Employee</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due (In Excess)</u>
1	\$ 3,147	\$ 3,006	\$ 141
2	3,508	3,253	255
4	2,758	2,570	188
5	2,639	2,599	40
6	5,260	4,807	453
8	3,102	2,441	661
10	2,616	2,538	78
11	2,886	2,757	129
12	2,130	2,072	58
13	1,609	1,316	293
		Total	<u>\$ 2,296</u>

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

<u>2019 Employee</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due (In Excess)</u>
1	\$ 2,147	\$ 2,291	\$ (144)
2	3,304	3,351	(47)
4	2,764	2,647	117
5	2,614	2,677	(63)
6	5,573	5,616	(43)
8	2,973	2,590	383
11	2,895	2,840	55
12	2,769	2,530	239
13	2,570	2,522	48
14	2,870	2,244	626
		Total	<u>\$ 1,171</u>

*Note: The number assigned to each employee in the above tables was carried forward to subsequent years, if applicable.*

**Criteria:** Section C.4.e of the plan agreement, effective January 1, 2016, set the employer’s pension contribution at 5 percent of participant’s compensation. For the year 2016, a motion was passed setting the contribution rate at 7.22 percent.

**Cause:** Plan officials failed to establish adequate internal control procedures to ensure that the plan members’ accounts were properly funded in accordance with the plan document.

**Effect:** The failure to properly allocate contributions to the members’ accounts has resulted 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.

**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.

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

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Management’s Response: Municipal officials agreed with the finding without exception and indicated that they will take appropriate action to comply with the recommendation upon receipt of the audit report

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.

**Finding No. 3 – Allocation Of State Aid In Excess Of Entitlement**

Condition: The township allocated state aid to the non-uniformed pension plan in excess of the plan’s defined contribution pension costs for full-time plan members in the years 2016 and 2019, as illustrated below:

	<u>2016</u>	<u>2019</u>
State aid allocation	\$ 35,844	\$ 31,921
Municipal pension costs for full-time plan members	32,177	30,122
Excess state aid	\$ 3,667	\$ 1,799

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 plan 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.

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the non-uniformed pension plan with the plan’s actual defined contribution pension costs attributable to full-time plan members.

Effect: It is this department’s opinion that, since 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; however, the township does have the option to allocate the excess state aid to its defined benefit police pension plan. Since the township used the excess state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan for its part-time employee, if the transfer to the defined benefit police pension plan is made from the non-uniformed pension plan, the non-uniformed plan’s MMO will not be fully paid.

Recommendation: Since the township used the excess state aid to pay the MMO due to the non-uniformed pension plan for its part-time employee and re-allocating the excess state aid to the police pension plan would result in a funding deficiency for the plan, we recommend that municipal officials deposit \$5,466 from the township’s general fund into the township’s defined benefit police pension plan representing the excess state aid incorrectly allocated to the non-uniformed pension plan for its part-time member to avoid such deficiency.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan with the pension plan’s defined contribution pension costs for its full time participants.

Management’s Response: Municipal officials agreed with the finding without exception and indicated that they will take appropriate action to comply with the recommendation upon receipt of the audit report.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Failure To Implement Mandatory Act 205 Provisions For The Procurement Of Professional Services**

**Condition:** As previously disclosed as a verbal observation, municipal officials failed to adopt the mandatory provisions of Act 205 regarding professional services contracts.

**Criteria:** Section 701-A of Act 205, as amended by Act 44 of 2009, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

WEST VINCENT TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states, in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The township's failure to adopt the required provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the pension plan could result in a general lack of overall transparency of the proposed actions to be taken by plan officials relative to the awarding of future investment and advisory service contracts for the plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

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

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

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

Year Ended December 31	State Aid	Employer Contributions
2014	\$ 42,454	\$ 265
2015	26,460	6,921
2016	35,844	None
2017	20,392	7,859
2018	11,071	16,288
2019	31,921	None



WEST VINCENT 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. Mike Schneider**  
Chairman, Board of Township Supervisors

**Mr. Bernie Couris**  
Vice-Chairman, Board of Township Supervisors

**Ms. Sara Shick**  
Township Supervisor

**Mr. John Granger**  
Township Manager

**Ms. Michele Hogrelius**  
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).