

COMPLIANCE AUDIT

Springettsbury Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2014 to December 31, 2016

July 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Springettsbury Township
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York, PA 17042

We have conducted a compliance audit of the Springettsbury Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2016. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 audit 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 audit 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, 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 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 15 of 55 active employees employed during the audit period amounting to \$18,122 of the total employee contributions of \$63,832 for 2014, \$19,958 of the total employee contributions of \$60,845 for 2015, and \$16,671 of the total employee contributions of \$54,430 for 2016, made during the audit period.
- We determined whether retirement benefits calculated for all 27 of the plan members who terminated employment and/or retired and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.

Springettsbury Township contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ending December 31, 2014 and 2015 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Springettsbury Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Springettsbury 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 – Noncompliance With Prior Audit Recommendation - Failure To Make Proper Distribution To Terminated Vested Member
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation - Improper Provision Contained In The Plan's Adoption Agreement

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

The contents of this report were discussed with officials of Springettsbury 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.

May 19, 2017



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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Springettsbury Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Springettsbury Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 85-09, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its union and non-union non-uniformed employees. The plan was established January 1, 1985. Active members are required to contribute 2 percent of earnings to the plan. The municipality is required to contribute 9 percent of each member's earnings for non-union employees and 9.5 percent of each member's earnings for union employees. As of December 31, 2016, the plan had 53 active members, 19 terminated members eligible for vested benefits in the future, and 9 retirees receiving pension benefits.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Springettsbury Township has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Municipal officials certified the correct data on the Certification Forms AG 385 submitted during the current audit period.

Partial Compliance With Prior Audit Recommendation

Springettsbury Township has partially complied with the prior audit recommendation concerning the following:

- Improper Provisions Contained In The Plan's Adoption Agreement

The Plan's Adoption Agreement was restated effective April 1, 2017 and the loan provision was removed. However, the in-service distribution provision was not removed and distributions were made to active plan members, as noted in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

Springettsbury Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Make Proper Distribution To Terminated Vested Member

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Make Proper Distribution To Terminated Vested Member

Condition: As disclosed in our prior audit report, an employee terminated in 2011 with 7 years of credited service and was 100 percent vested; however, the employee did not receive a \$31,593 distribution of the employer contributions to which he was entitled.

Criteria: The separately executed ICMA Retirement Corporation Adoption Agreement in effect at the time of the member’s termination, at Section IX, provides the following vesting schedule:

<u>Years of Service Completed</u>	<u>Percent Vesting</u>
0 though 2	None
3	20%
4	40%
5	60%
6	80%
7 or more	100%

Therefore, pursuant to the above schedule, the terminated employee was entitled to a distribution in the amount of 100 percent of his employer contributions.

Cause: Upon his termination of employment, the plan member only received his employee contributions. Furthermore, plan officials failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The terminated employee did not receive the lump-sum distribution to which he was entitled.

In addition, the \$31,593 was classified as a forfeiture to the township and used to reduce municipal contributions in the year 2011 pursuant to the forfeiture provisions contained in the plan’s governing document.

Recommendation: We again recommend that the township take appropriate action to ensure the terminated plan member receives the \$31,593 employer contributions due, plus interest at the rate earned by the plan.

Management’s Response: Municipal officials agreed with the finding without exception. Subsequent to the current audit period, \$37,723 was placed into an account for the terminated member and the township is awaiting confirmation from the member to distribute the funds.

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

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Improper Provision Contained In The Plan’s Adoption Agreement

Condition: As disclosed in our prior audit report, the plan’s separately executed ICMA Retirement Corporation Adoption Agreement contained improper provisions for loans and in-service distributions to plan members. Subsequent to the current audit period, the Plan’s Adoption Agreement was restated effective April 1, 2017 and the loan provision was removed; however, the in-service distribution provision was not removed.

Section XI of the April 1, 2017 Adoption Agreement states that in-service distributions are permitted after a participant attains age 70^{1/2}.

During the current audit period, in-service distributions were made to 2 active plan members. One of the active members was a non-union employee who was over age 70^{1/2}. This member subsequently retired and received the balance of his member account. The other active plan member was a union employee who received 3 separate distributions from his member account totaling \$90,000. Although this fully vested plan member was over age 59^{1/2} which was a withdrawal option offered by the custodian, this option was not selected for this plan, either in the former or revised adoption agreement.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not to provide loans or distributions to be made to active plan members prior to their eligibility for retirement benefits.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation, and to ensure that the withdrawals that were made were in accordance with the provisions contained in the plan’s governing document.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The unauthorized in-service distribution provision violates the intent of Act 205 to only provide distributions to plan members upon their retirement or termination of employment with the municipality.

Recommendation: We again recommend that municipal officials take appropriate action to eliminate the in-service distribution provision from the plan's adoption agreement at their earliest opportunity to do so.

We also recommend that municipal officials establish adequate internal control procedures, such as having at least two people review each account withdrawal application, to ensure all member account withdrawals are in accordance with the provisions of the plan's governing document.

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

Auditor's Conclusion: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

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

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 34,895	\$ 252,631
2012	None	290,819
2013	None	283,548
2014	None	253,481
2015	None	281,365
2016	None	252,155

Note: In 2011, the township met the plan's \$319,146 funding requirement through the deposit of \$34,895 in state aid, \$31,620 in terminated employee forfeitures and \$252,631 in employer contributions. In 2012, the township met the plan's \$307,598 funding requirement through the deposit of \$16,779 in terminated employee forfeitures and \$290,819 in employer contributions. In 2013, the township met the plan's \$299,541 funding requirement through the deposit of \$15,993 in terminated employee forfeitures and \$283,548 in employer contributions. In 2014, the township met the plan's \$295,366 funding requirement through the deposit of \$41,885 in terminated employee forfeitures and \$253,481 in employer contributions.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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