

LIMITED PROCEDURES ENGAGEMENT

Washington Township Non-Uniformed Employees Pension Plan

York County, Pennsylvania
For the Period
January 1, 2012 to December 31, 2015

August 2016



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
Washington Township
York County
East Berlin, PA 17316

We conducted a Limited Procedures Engagement (LPE) of the Washington Township Non-Uniformed Employees Pension Plan for the period January 1, 2012 to December 31, 2015 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2010 to December 31, 2015, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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, 2010 to December 31, 2015, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 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.
- Whether the terms of the plan's 1 unallocated 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Washington Township Non-Uniformed Employees Pension Plan was not being 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 subsequent to this letter:

Finding – Partial Compliance With Prior Audit Recommendation –
Incorrect Data On Certification Form AG 385 Resulting In An
Overpayment Of State Aid

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

The contents of this letter were discussed with officials of Washington Township and, where appropriate, their responses have been included in this letter. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

July 29, 2016


EUGENE A. DEPASQUALE
Auditor General

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WASHINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current engagement period, the township reimbursed \$28,894 to the Commonwealth for the overpayments of state aid received in 2009, 2010, and 2011; however, plan officials 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 2012 and 2013, as further discussed in the Finding and Recommendation section of this report.

WASHINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the prior audit report, the township certified 4 ineligible employees and overstated payroll by \$114,968 and \$115,178, respectively on the Certification Forms AG 385 filed in 2009 and 2010, and certified 3 ineligible employees and overstated payroll by \$90,895 on the Certification Form AG 385 filed in 2011. During the current engagement period, the township reimbursed \$28,894 to the Commonwealth for the overpayments of state aid received; however, plan officials 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 2012 and 2013.

The township certified 4 ineligible employees and overstated payroll by \$123,027 in 2012 and certified 4 ineligible employees and overstated payroll by \$128,248 in 2013 on the Certification Forms AG 385. The data contained on these certification forms 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 and must have been participating in a pension plan during the certification year.

Section 402(h) of Act 205 states:

Certification of employees by eligible recipient municipalities. Each eligible recipient county of the second class shall certify annually to the Auditor General the number of police officers and each other eligible recipient municipality shall certify annually to the Auditor General the number of police officers, firefighters and municipal employees other than police officers and firefighters who meet the qualification requirements specified in subsection (e)(2), and whatever additional information the Auditor General requires to verify the number of units attributable to the municipality. No unit or units shall be attributable to any municipal employee who is not certified to the Auditor General in a timely manner.

WASHINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, Section 402(j) of Act 205 states:

Administration. The Auditor General shall have the duty of administering the General Municipal Pension System State Aid Program. The Auditor General may promulgate rules and regulations necessary for the efficient administration of this program and may specify the form and content of any forms applicable to the program. The Auditor General, as deemed necessary, shall 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.

In addition, pursuant to the instructions that accompany Certification Form AG 385, in order to be eligible for certification, an employee must have been employed on a full-time basis, working 35 hours per week, for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified. Plan officials consider the employees in question to be full-time employees and therefore eligible for certification for state aid even though these employees did not work more than the required 35 hours per week for six consecutive months.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the township for distribution to its pension plan. Because the township’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2012	9.0%	\$ 123,027	\$ 11,072
2013	9.0%	\$ 128,248	<u>11,542</u>
Total Overpayment of State Aid			<u><u>\$ 22, 614</u></u>

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

WASHINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$22,614, be reimbursed to the Commonwealth from township funds. 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, 320 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 to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: Washington Township disputes the June 28, 2016 Exit Conference Memorandum. The June 13, 2016 Exit Conference Memorandum accurately reflects the amount that Washington Township owes for overpayments of state aid made.

Attached to this correspondence is the Washington Township Non-Uniformed Pension Plan prior Finding and Recommendation, state aid allocation letters from the Department of Auditor General for the years 2009, 2010, 2011, and 2012, and a letter from the Bureau of Municipal Pensions confirming the previous overpayment amount and the years applicable to that overpayment. The Finding and Recommendation, on Page 7 of the prior audit report states that for the years 2009 through 2011, a total of \$28,894 was due to the Commonwealth, which was confirmed in the letter sent from the Bureau of Municipal Pension Audits.

By letter dated September 24, 2012, the Department issued an allocation in the amount of \$11,072.49 to the Township. The issue was corrected on January 1, 2013 and no overpayments are due after this date. Therefore, the amount that Washington Township owes for the overpayment of state aid is \$11,072.49 for the year 2012.

Auditor's Conclusion: While we acknowledge the township corrected this issue beginning in 2013, the township's 2013 state aid allocation was based on 2012 data. Based on the hours worked by the township's employees in 2012, none of them met the requirement of working 35 hours per week over a 6 month period to be eligible for certification on the 2013 Certification Form AG 385. Consequently, as noted on the revised Exit Conference Memorandum, the township received overpayments of state aid in 2012 and 2013 that must be reimbursed to the Commonwealth; therefore, the finding and recommendation remain as stated.

WASHINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this letter cites an overpayment of state aid to the township in the amount of \$22,614. A condition of this nature may lead to a total withholding of state aid in the future unless the 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, 320 Finance Building, Harrisburg, PA 17120.

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

Year Ended December 31	State Aid	Employer Contributions
2010	None	\$ 12,447
2011	\$ 2,866	9,442
2012	11,072	1,995
2013	11,542	1,899
2014	11,939	2,062
2015	12,410	1,374

WASHINGTON TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Daniel McGregor
Chairman, Board of Township Supervisors

Ms. Diane Deardorff
Secretary/Treasurer

This letter is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the letter 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.