LIMITED PROCEDURES ENGAGEMENT

Wayne Township Non-Uniformed Pension Plan

Erie County, Pennsylvania

For the Period
January 1, 2014 to December 31, 2017

June 2018

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

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Board of Township Supervisors
Wayne Township
Erie County
Corry, PA 16407

We conducted a Limited Procedures Engagement (LPE) of the Wayne Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 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 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether retirement benefits calculated for plan members who retired during the engagement 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- Whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014, 2016 and 2018, 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 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 Wayne Township Non-Uniformed 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 findings further discussed later in this report:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Failure To Properly Fund Members' Accounts

Finding No. 3 – Improper Distributions From Plan

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

June 4, 2018

EUGENE A. DEPASQUALE
Auditor General

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Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan's defined contribution pension costs in the years 2015 and 2017, as illustrated below:

	2015	2017
State aid allocation	$ 4,120	$ 4,588
Forfeiture available	3,299	627
Municipal pension costs for full-time members	(4,000)	(4,023)
Excess state aid	$ 3,419	$ 1,192

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 plans 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. . . .

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. . . .

Finding No. 1 – (Continued)

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

Cause: Although the township reported the plan's defined contribution rate correctly on the January 1, 2015, valued actuarial valuation report, plan officials did not establish adequate internal control procedures to reconcile the township's state aid allocation and employee forfeitures available to reduce municipal contributions (the forfeitures shown in the Condition above were improperly distributed from the plan to terminated members who were not eligible to receive them (refer to Finding No. 3)) with the plan's actual defined contribution pension costs for eligible full-time employees actively participating in the pension plan.

Effect: It is this department's opinion that because 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. Consequently, the overpayment of state aid in the years 2015 and 2017 must be returned to the Commonwealth for redistribution. Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality return the $4,611 of excess state aid received in the years 2015 and 2017 to the Commonwealth from the general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the township, along with any available plan forfeitures, with the plan's annual defined contribution pension costs attributable to full-time members and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: The township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

Finding No. 2 – Failure To Properly Fund Members' Accounts

Condition: The township made excess municipal contributions during 2015, 2016 and 2017 in the amounts of $588, $616 and $2,000, respectively, to the accounts of three employees who were not eligible to receive such contributions according to the plan's governing document.

Criteria: During 2016, the township enacted Resolution No. 1603, which adopted a separately executed plan agreement, effective January 1, 2015, with the plan's custodian. Sections G 2 (a)(iv) and (b) of this updated plan agreement state, in part, the following:

> Contributions and Forfeitures. Employer Matching Contributions: 100% of a Participant's elective deferral contributions. Elective deferral contributions in excess of $2,000 of a participant's compensation for the year shall not be matched.
>
> Employer matching contributions shall be made based on elective deferral (pre-tax) contributions to the . . . Wayne Township Deferred compensation Plan.

In addition, Section G 4 (a)(ii) states, in part:

> …a participant must work a minimum of 1,000 Hours of Service during such year.

Furthermore, Section G 6(c) states, in part:

> For contributions described in Section G.2. only, a Terminated Participant shall share in the allocation of employer matching contributions and forfeitures for the plan year as follows: A Participant must be employed on the last day of the Plan Year in order to share in the allocation, unless such Participant worked at least 1,000 Hours of Service during such year.

Cause: Plan officials failed to implement procedures to ensure that only eligible plan members' accounts were properly funded in accordance with the provisions contained in the plan's governing document and did not take into consideration the required minimum service hours needed to receive a contribution for terminating employees in the year of their termination.

Effect: The failure to properly fund the members' accounts resulted in two terminated plan members receiving benefits from the pension plan during 2015 and 2017 in excess of those to which they were entitled and, for another member who terminated-vested during 2017 and did not yet receive a distribution from the pension plan; however, the member's account balance includes $2,000 in excess of which the member is entitled.

Finding No. 2 – (Continued):

Recommendation: We recommend plan officials, after consulting with their solicitor, determine whether the $2,000 in excess municipal contributions made during 2017 to the account of the terminated-vested employee should be returned to the municipality's general fund.

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

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

Finding No. 3 – Improper Distributions From The Plan

Condition: Plan officials failed to ensure that all distributions from the pension plan during the period were in accordance with the provisions contained in the plan's governing document. A terminated non-vested employee with two years of credited service and another terminated non-vested employee with six months of credited service each received a full distribution of their account balances during 2015 and 2016 which were not in accordance with the plan document.

Criteria: The plan's governing document, Resolution No. 1603, which was enacted during 2016 and adopted a separately executed plan agreement with the plan's custodian, at Section J 1(b) of this updated plan agreement, establishes a three year vesting schedule before which the employee is 100% vested in the employer contributions into the participants' accounts.

In addition, Section G 5(b) states, in part:

> Forfeitures of Employer contributions shall be used to reduce future Employer contributions under this plan.

Cause: Township officials failed to establish adequate internal control procedures to ensure that all amounts disbursed to terminated plan members are only made to those individuals who are eligible to receive such benefits and in accordance with the plan document.

Finding No. 3 – (Continued):

Effect: The failure to properly ensure that distributions made from the plan are in accordance with the provisions contained in the plan's governing document resulted in improper distributions, including excess municipal funds (previously discussed in Finding No. 2 of this report), that were made to two terminated members of the pension plan during 2015 and 2017. In addition, the non-vested forfeiture portion of the individual members' account balances were not available to reduce municipal contributions for eligible plan members for the years of 2015 and 2017, as required by the plan's governing document (see Finding No. 1).

Recommendation: We recommend that municipal officials establish adequate internal control procedures to ensure that future distributions made from the plan are in accordance with the provisions contained in the plan's governing document.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

WAYNE TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this report cites an overpayment of state aid to the township in the amount of $4,611. 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.

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

Year Ended December 31	State Aid	Employer Contributions
2012	$ 1,978	$ 4,022
2013	2,114	3,622
2014	3,334	2,666
2015	701	2,588
2016	3,248	5,368
2017	3,396	4,000

Note: In 2015, the township met the plan's $6,000 funding requirement through the deposit of $701 in state aid and $3,299 in terminated employee forfeitures and $2,588 in employer contributions.

Note: In 2017, the township met the plan's $6,023 funding requirement through the deposit of $3,396 in state aid and $627 in terminated employee forfeitures and $4,000 in employer contributions.

WAYNE 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. Richard A. Warner
Chairman, Board of Township Supervisors

Ms. Erin Bisbee
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.