

COMPLIANCE AUDIT

Springettsbury Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

November 2014



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
York County
York, PA 17402

We have conducted a compliance audit of the Springettsbury Township Non-Uniformed Pension Plan for the period January 1, 2011 to December 31, 2013. 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 finding 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.

Springettsbury Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.

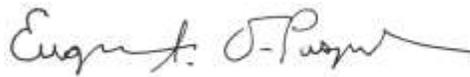
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Springettsbury Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and 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, 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 tests 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 – Failure To Make Proper Distribution To Terminated Vested Member
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 3 – Improper Provisions Contained In The Plan's Adoption Agreement

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.

September 23, 2014



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 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, 2013, the plan had 61 active members, 24 terminated members eligible for vested benefits in the future, and 4 retirees receiving pension benefits.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Inconsistent Benefit Provision

Township officials adopted Resolution No. 2013-45 to ensure the plan's governing document and the collective bargaining agreement contain consistent municipal contribution rates.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Make Proper Distribution To Terminated Vested Member

Condition: 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 through 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: While the member did receive a refund of his member contributions upon termination, township officials failed to ensure that the plan’s custodian remitted the correct payment to the terminated employee, including employer contributions.

Effect: The terminated employee did not receive \$31,593 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 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.

We also recommend that municipal officials establish 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 audit of the plan.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$49,912 on the Certification Form AG 385 filed in 2013. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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 unit value, the township received an underpayment of state aid of \$3,885 as identified below:

| <u>Units Understated</u> | <u>Unit Value</u> | <u>State Aid Underpayment</u> |
|------------------------------|-----------------------|-----------------------------------|
| 1 | \$ 3,885 | \$ 3,885 |

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2013 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan’s funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, 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: Municipal officials agreed with the finding without exception.

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. 3 – Improper Provisions Contained In The Plan’s Adoption Agreement

Condition: The plan’s separately executed ICMA Retirement Corporation Adoption Agreement for the township’s non-union employees contains improper provisions for loans and in-service distributions to plan members.

Section XI of the adoption agreement states that loans are permitted under the plan. Section XII of the agreement states that in-service distributions are permitted after a participant attains age 70½.

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 were not aware that loans and in-service distributions are not authorized provisions.

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

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

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

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

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

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2008 | None | \$ 282,525 |
| 2009 | None | 304,276 |
| 2010 | None | 327,483 |
| 2011 | \$ 34,895 | 252,631 |
| 2012 | None | 290,819 |
| 2013 | None | 283,548 |

Note: The township applied terminated employee forfeitures in the amounts of \$31,620 in 2011, \$16,779 in 2012, and \$15,993 in 2013 towards the respective years' funding requirements.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Springettsbury Township Non-Uniformed Pension Plan
York County
1501 Mount Zion Road
York, PA 17402

Mr. George M. Dvoryak Chairman, Board of Township Supervisors

Ms. Betty Speicher Director of Human Resources

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.