

# COMPLIANCE AUDIT

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## Center Township Non-Uniformed Pension Plan Beaver County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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June 2015



Commonwealth of Pennsylvania  
Department of the Auditor General  
Eugene A. DePasquale • Auditor General



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Board of Township Supervisors  
Center Township  
Beaver County  
Aliquippa, PA 15001

We have conducted a compliance audit of the Center Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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.
- × 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, 2009 to December 31, 2014, 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 all 10 active employees employed during the audit period amounting to \$33,634, \$38,909 and \$37,792, for the years 2012, 2013 and 2014, respectively, made during the audit period.
- × We determined that there were no benefit calculations prepared for the years covered by our audit period.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.
- × We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations by testing all of the refunds disbursed to plan members during the current audit period.
- × We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all 6 of the transfers made during the audit period.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Center 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the Center 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 – Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

Finding No. 2 – Improper Withholding Of Members' Contributions

The contents of this report were discussed with officials of Center Township and, where appropriate, their responses have been included in the report.

May 26, 2015

A handwritten signature in dark ink, appearing to read "Eugene A. DePasquale", with a long, sweeping horizontal line extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background .....	1
Findings and Recommendations:	
Finding No. 1 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan .....	2
Finding No. 2 – Improper Withholding of Members’ Contributions.....	3
Summary of Deposited State Aid and Employer Contributions .....	6
Report Distribution List .....	7

## **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 Center 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 Center Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a Resolution dated September 16, 1996, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established July 1, 1974. As of January 1, 2013, active office members are required to contribute 8 percent of their gross salary to the plan and road crew members are required to contribute 7 percent of their base salary to the plan. Prior to January 1, 2013, office members were required to contribute 7 percent of their gross salary to the plan and road crew members were required to contribute 6 percent of their base salary to the plan. As of January 1, 2013, the municipality is required to contribute 8 percent of the office members' gross salary and 7 percent of the road crew members' base salary. Prior to January 1, 2013, the municipality was required to contribute 7 percent of the office members' gross salary and 6 percent of the road crew members' base salary. As of December 31, 2014, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

CENTER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: In the years 2012 and 2013, the township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2012</u>	<u>2013</u>	<u>Total</u>
Actual municipal contributions made	\$ 33,634	\$ 38,909	\$ 72,543
Actual municipal pension costs	<u>(32,040)</u>	<u>(37,120)</u>	<u>(69,160)</u>
Excess municipal contributions	<u>\$ 1,594</u>	<u>\$ 1,789</u>	<u>\$ 3,383</u>

The excess municipal contributions were made to the Road Department employees' accounts.

Criteria: Resolution No. 6-2002 states in part:

...the percentage of employee and employer contribution to the Road Department Employees Pension Plan shall be 6% of the employees' monthly base salary (based on the 2,080 hours per year).

Further, Resolution No. 2-2015 states in part:

...the percentage of employee and employer contribution to the Road Department Employees Pension Plan shall be 7% of the employees' monthly base salary (based on the 2,080 hours per year). This Resolution shall be retroactive to January 1, 2013.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: The municipality allocated funds to the members' accounts in excess of the defined contribution percentage rate contained in the plan's governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

CENTER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the members' accounts at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

We also recommend that in the future, plan officials reconcile the amount of municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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.

**Finding No. 2 – Improper Withholding Of Members' Contributions**

Condition: In the years 2012 and 2013, the township withheld members' contributions in excess of the required members' contributions contained in the plan's governing document, as illustrated below:

<u>2012 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess</u>
1	\$ 3,023	\$ 3,275	\$ 252
2	3,023	3,275	252
3	3,085	3,342	257
4	3,428	3,714	286
5	3,553	3,849	296
6	3,023	3,275	252
Total			<u>\$ 1,595</u>

CENTER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

<u>2013 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess</u>
1	\$ 3,235	\$ 3,556	\$ 321
2	3,579	3,854	275
3	3,669	3,951	282
4	4,070	4,382	312
5	4,215	4,539	324
6	3,579	3,854	275
Total			<u>\$ 1,789</u>

The excess member contributions were deducted from the Road Department employees.

Criteria: Resolution No. 6-2002 states in part:

...the percentage of employee and employer contribution to the Road Department Employees Pension Plan shall be 6% of the employees' monthly base salary (based on the 2,080 hours per year).

Furthermore, Resolution No. 2-2015 states in part:

...the percentage of employee and employer contribution to the Road Department Employees Pension Plan shall be 7% of the employees' monthly base salary (based on the 2,080 hours per year). This Resolution shall be retroactive to January 1, 2013.

Cause: The township did not have adequate internal control procedures in place to ensure that members' contributions withheld and deposited into the pension plan were in accordance with the plan's governing document.

Effect: Plan members contributed to the plan in excess of the contributions required by the plan's governing document.

CENTER TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the township, with the assistance of its solicitor, determine the excess member contributions withheld from the plan members and either reimburse the plan members, with interest, for the excess contributions withheld or provide a credit against future contributions due until the contributions attributable to each member are determined to be accurate.

We also recommend that plan officials establish adequate internal control procedures to ensure the proper amount of members' contributions are withheld in the future.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2009	None	\$ 25,174
2010	None	28,478
2011	None	23,749
2012	None	33,634
2013	None	38,909
2014	None	37,792

CENTER 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

Center Township Non-Uniformed Pension Plan  
Beaver County  
224 Center Grange Road  
Aliquippa, PA 15001

Mr. Bill DiCioccio, Jr.	Chairman, Board of Township Supervisors
Ms. Rachael DelTondo	Secretary/Treasurer

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, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).