

COMPLIANCE AUDIT

Center Township Road and Office Employees Pension Plan

Beaver County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2020

June 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

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

We have conducted a compliance audit of the Center Township Road and Office Employees Pension Plan for the period January 1, 2017 to December 31, 2020. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 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 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, 2015 to December 31, 2020, 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, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether retirement benefits calculated for plan members who 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 recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Center Township Road and Office Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 Center Township Road and Office Employees 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:

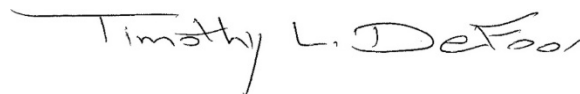
Finding No. 1 – Partial Compliance With Prior Audit Recommendation –
Incorrect Data On Certification Form AG 385 Resulting In A
Net Overpayment Of State Aid

Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The
Procurement Of Professional Services

Finding No. 3 – Improper Vesting Distribution

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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



Timothy L. DeFoor
Auditor General

June 17, 2021

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid.....	3
Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For the Procurement of Professional Services	4
Finding No. 3 – Improper Vesting Distribution.....	6
Summary of Deposited State Aid and Employer Contributions.....	8
Report Distribution List	9

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.

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 Road and Office Employees Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Center Township Road and Office Employees 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 road and office employees. The plan was established July 1, 1974. Office members were required to contribute 8 percent of their gross salary during 2017 and road crew members were required to contribute 8 percent of their base salary to the plan. Effective January 1, 2018 and for the years 2019 and 2020, office members were required to contribute 9 percent of their gross salary and road crew members were required to contribute 9 percent of their base salary to the plan. As of December 31, 2020, the plan had 12 active members.

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Center Township has complied with the prior recommendation concerning the following:

- Failure To Properly Fund Member Accounts

Municipal officials reviewed applicable plan members' accounts and deposited the outstanding contributions due for the year 2016, with interest, as recommended.

Partial Compliance With Prior Recommendation

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

- Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

During the current audit period, the township reimbursed \$213 to the Commonwealth for the overpayment of state aid received in 2018; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data as further discussed in the Finding and Recommendation section of this report.

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received. However, a similar condition occurred during the current audit period. The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$60,164 and \$67,253 on the Certification Form AG 385s filed during 2018 and 2020, respectively. In addition, the township certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$46,040 on the Certification Form AG 385 filed in 2019. 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.

In addition, a Resolution dated 09-16-96 at Section 2.01 states, in part:

Each Employee shall be eligible to participate in the Plan as of the Entry Date coincident with or next following attainment of twenty-one (21) years of age and completion of one (1) Year of Service....

Cause: Plan officials failed to establish adequate internal control procedures, such as having another individual review the data prior to submission, 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 plan. Because the township’s state aid allocations were based on unit value, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	(1)	\$ 4,684	\$ (4,684)
2019	1	5,120	5,120
2020	(1)	4,924	<u>(4,924)</u>
Net Underpayment of State Aid			<u><u>\$ (4,488)</u></u>

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Although the township will be reimbursed for the total net underpayment of state aid due to the township’s certification errors, the full amount of the 2018 and 2020 state aid allocations were 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 again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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: 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. The township’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

Finding No. 2 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

Condition: Act 44 of 2009 was signed into law on September 18, 2009 and made numerous, significant changes to the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984) which includes establishing conduct and disclosure standards for professional service contracts applicable to municipal pension systems. We included an observation in our prior audit to disclose the township’s failure to adopt the mandatory provisions of Act 205 regarding professional services contracts. During the current audit period, municipal officials again failed to adopt the mandatory provisions of Act 205 regarding professional services contracts.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system’s Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Cause: The township previously enacted Resolution No. 5-2012, “to adopt the provisions of Act 44 of 2009 in its entirety”; however, the township did not implement or adopt specific provisions and/or procedures to accompany the Resolution to ensure compliance with provisions of the act.

Effect: The township’s failure to comply in all respects with the previous recommendation and the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the township’s pension plan could result in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of investment and advisory services contracts for the township’s pension plan.

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintenance of appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan, including authorizations/approvals of township officials in the official minutes of formal board meetings and required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of such contracts.

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 Vesting Distribution

Condition: An employee who terminated employment with the township during 2018 after 8 years of credited service (80 percent vested according to the plan document) improperly received a distribution of 100 percent of his account balance, resulting in a \$5,544 overpayment from the pension plan.

Criteria: A resolution dated January 1, 1996, at Section 9.01, states:

...a participant shall have a vested interest in the contribution made on his behalf by the township according to years of qualified participation in the plan, according to the following schedule:

<u>Completed Years of Service</u>	<u>Vested Percentage</u>
Less than 2	0%
2	20%
3	30%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or more	100%

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Therefore, pursuant to the above schedule, the terminated employee was only entitled to a distribution amounting to 80 percent of the individual's account balance.

In addition, Section 9.02 and 9.3 state, in part:

Forfeitures - The value of the Participant's account, which is not vested as of the termination of the employment of the Participant shall be forfeited. Such forfeiture shall occur as of the valuation date, which coincides with or immediately follows the date upon which the Participant incurs a one (1) year Break-In-Service. Notwithstanding anything contained herein to the contrary, where the entire vested value of the Participant's Account is distributed prior to the date on which a one (1) year Break-In-Service shall occur the forfeiture described herein shall occur as of the date of distribution to the Participant.

Application of Forfeitures – Amounts forfeited by any participant...shall be used only to reduce the Employer Contributions to the Plan.

Cause: The township failed to establish adequate internal control procedures to ensure the plan's custodian distributed correct benefit payment to the terminated employee.

Effect: The plan paid benefits in excess of entitlement to an individual in the amount of \$5,544. In addition, the amount of the overpayment is not available to reduce future municipal contributions to the plan pursuant to provisions contained in the plan's governing document.

Recommendation: We recommend that the pension plan be reimbursed \$5,544 for the benefit overpayment and that this amount be used to offset future municipal contributions before the application of any future state aid or additional municipal contributions. In the year of reimbursement, it should be noted that if the reimbursement/forfeiture amount and state aid allocated to the pension plan exceed the plan's defined contribution pension costs, the excess amount of state aid should be re-allocated to the township's defined benefit police pension plan, accordingly.

In addition, we recommend that in the future, the township establish adequate internal control procedures to ensure that the plan's custodian limits future distributions from the pension plan to those authorized by 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.

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 38,170
2016	None	37,799
2017	None	37,864
2018	None	55,829
2019	None	55,193
2020	None	60,792

CENTER TOWNSHIP ROAD AND OFFICE EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. William DiCioccio, Jr.
Chairman, Board of Township Supervisors

Mr. Richard George
Township Supervisor

Mr. George Warzynski
Township Supervisor

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Township Secretary

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