

COMPLIANCE AUDIT

Crescent Township Police Pension Plan Allegheny County, Pennsylvania

July 2023



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 Commissioners
Crescent Township
Allegheny County
Crescent, PA 15046

We have conducted a compliance audit of the Crescent Township Police Pension Plan 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 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 whether 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:

- For the period January 1, 2018 to December 31, 2022, and through the completion of our fieldwork procedures, 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 the period January 1, 2022 to December 31, 2022, 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.
- For the period January 1, 2022 to December 31, 2022, we determined that there were no employee contributions required due to the fact that employee contributions were appropriately waived by the municipality.
- For the period January 1, 2022 to December 31, 2022, and through the completion of our fieldwork procedures, we determined whether retirement benefits calculated for the plan member who retired subsequent to the period noted 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 monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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.

The Crescent Township Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

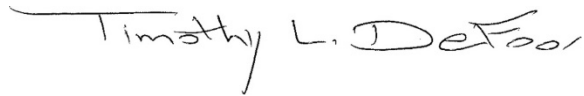
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Crescent Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objective.

The results of our procedures indicated that, in all significant respects, the Crescent Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation Resulting In An Overpayment Of State Aid
- Finding No. 2 – Untimely Deposit Of State Aid
- Finding No. 3 – Failure To Maintain Vested Pension Benefit Calculation
- Finding No. 4 – Ordinance Improperly Amended By Resolution
- Finding No. 5 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Crescent 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.



Timothy L. DeFoor
Auditor General
June 23, 2023

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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.

Annual state aid allocations are provided from a two (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 Crescent Township Police 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Crescent Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 576, as amended, effective April 1, 2020, and a separately executed plan agreement with the plan custodian adopted pursuant to Act 15. Prior to April 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 536 and an agreement with the plan custodian also adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established December 1, 1979. Active members are required to contribute five (5.0) percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2022, the plan had seven active members, one terminated member eligible for vested benefits in the future, and one retiree receiving pension benefits.

CRESCENT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation Resulting In An Overpayment Of State Aid

Condition: Actuarial valuation report form 201C, for the police pension plan, with a valuation date of January 1, 2021, submitted to the Municipal Pension Reporting Program (MPRP), contained incorrect information. The township incorrectly reported five active members when there were six active members and reported payroll of \$330,128 when the actual payroll was \$369,094.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: Municipal officials were uncertain as to the cause of the discrepancy in the data reported on the January 1, 2021 actuarial valuation report; however, the township failed to establish adequate internal control procedures to ensure the actuarial valuation report contained correct data. Furthermore, the January 1, 2021 actuarial valuation report, which was due March 31, 2022, was not submitted to the MPRP until November 8, 2022.

Effect: Because the municipality’s state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in the municipality receiving state aid allocations for the year 2022 incorrectly based on a normal cost percentage of 15.5415%, instead of 13.9008%. As a result, the township received excess state aid in the total amount of \$7,319, calculated as follows:

<u>Normal Cost</u>	<u>Payroll Certified on Form AG 385</u>	<u>Amortization</u>	<u>State Aid Entitlement (a)</u>	<u>State Aid Received (b)</u>	<u>Excess State Aid (b)-(a)</u>
13.9008%	\$ 446,081	\$ 1,415	\$ 63,424	\$ 70,743	\$ 7,319

CRESCENT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The effect of the submission of incorrect data on the township's state aid allocation for the year 2023 could not be determined because state aid has not yet been allocated for that year.

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that plan officials contact the MPRP to determine if a revised actuarial valuation report may be filed. If a revised report is prepared and accepted by the MPRP, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

We also recommend that the total excess state aid, in the amount of \$7,319, be returned to the Commonwealth. 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Furthermore, we also recommend that, in the future, plan officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan. In addition, to insure that future actuarial filing deadlines are met and to improve pension plan administration, we recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

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 audit report and through our next audit of the pension plan.

CRESCENT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2018, 2020, 2021, and 2022 state aid allocations into the pension plan within the 30-day grace period allowed by Act 205. The municipality received its 2018, 2020, 2021, and 2022 state aid allocations in the amount of \$37,489, \$44,609, \$62,629, and \$76,663, respectively, on September 20, 2018, September 29, 2020, September 28, 2021, and September 28, 2022, respectively, but did not deposit the money into its police pension plan until December 11, 2018, December 29, 2020, December 29, 2021, and December 28, 2022, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: The 2018, 2020, 2021, and 2022 state aid was not deposited timely into the municipality's pension plan because the new plan officials were unaware of the applicable Act 205 provisions.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30-day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30-day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

CRESCENT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Maintain Vested Pension Benefit Calculation

Condition: The township failed to maintain a vested pension benefit calculation for a plan member who terminated employment with the township on March 22, 2019.

Criteria: The municipality should maintain adequate supporting documentation to substantiate the accuracy of pension benefit determinations to avoid discrepancies occurring in the future when the former employee is eligible to begin receiving a pension benefit.

Cause: Due to a turnover in the position responsible for preparation of vested pension calculations, municipal officials were unable to identify the cause.

Effect: The failure of plan officials to maintain vested pension benefit calculations could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that plan officials obtain adequate supporting documentation to verify the accuracy of the vested pension benefit to be paid from the plan.

We also recommend that municipal officials establish adequate internal control procedures to ensure that all pension benefit calculations are properly determined and maintained by the township.

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. 4 – Ordinance Improperly Amended By Resolution

Condition: The pension plan governing document, Ordinance No. 576, was improperly amended by Resolution No. 29-2022, effective December 9, 2022, to adopt a Deferred Retirement Option Program (DROP) with the plan custodian with the same effective date. Plan provisions adopted by ordinance must be amended by ordinance and not be a resolution.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials believed that the pension plan was properly amended and were not aware that a resolution cannot amend an ordinance.

CRESCENT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The failure to properly adopt the restated plan document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the township amend the plan’s governing document with a properly executed ordinance.

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. 5 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Condition: The municipality’s accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2022. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, municipal officials indicated that the plan’s custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2022.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations and could lead to undetected errors or improprieties in account transactions.

CRESCENT TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2022 to ensure the accuracy and propriety of the transaction activity.

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

Auditor’s Conclusion: It was noted that the plan custodian went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. The custodian expects 2022 financial reports to be distributed before the end of 2023. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

CRESCENT TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 1,259,294	\$ 1,260,695	\$ 1,401	99.9%
01-01-19	1,363,484	1,316,949	(46,535)	103.5%
01-01-21	1,517,351	1,531,859	14,508	99.1%

CRESCENT TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

CRESCENT TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 16,677	\$ 21,995	\$ (5,318)	\$ 182,324	12.06%
2015	28,970	28,970	-	185,095	15.65%
2016	31,066	37,454	(6,388)	154,263	24.28%
2017	26,584	26,604	(20)	229,998	11.57%
2018	45,673	45,693	(20)	198,361	23.04%
2019	33,037	33,137	(100)	306,425	10.81%
2020	59,268	59,308	(40)	375,106	15.81%
2021	67,972	68,012	(40)	479,319	14.19%
2022	73,070	73,070	-		

* Due to the timing of this audit, covered-employee payroll for 2022 was not provided in this schedule.

CRESCENT TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Not available
Remaining amortization period	14 years
Asset valuation method	Not available
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses
Projected salary increases *	4.1%
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year, subject to plan limitations

The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020 which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.

CRESCENT TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Todd Miller
President, Board of Township Commissioners

Ms. Janice C. Adamski
Township Manager

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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