

COMPLIANCE AUDIT

Darlington Township Non-Uniformed Pension Plan Beaver County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

October 2020



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
Darlington Township
Beaver County
Darlington, PA 16115

We have conducted a compliance audit of the Darlington Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2019. 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 finding 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, 2014 to December 31, 2019, 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined that employee contributions were calculated, deducted and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for the lone plan member 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 recipient.
- 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.
- We determined whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

The Darlington Township Non-Uniformed 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 Comprehensive Annual 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 Darlington Township Non-Uniformed 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 Darlington 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 – Noncompliance With Prior Recommendation – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

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 Darlington 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, 2020



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.

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 Darlington Township Non-Uniformed 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 Darlington Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 38, and a separately executed plan agreement, adopted pursuant to Act 15. The plan was established March 10, 2003. Active members are not required to contribute to the plan; however, voluntary contributions up to 10 percent of employee compensation are permissible. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2019, the plan had 6 active members, 1 terminated member eligible for vested benefits in the future, and 3 retirees receiving pension benefits.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Darlington Township has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan.

Condition: As disclosed in the prior audit report, the township made contributions to the non-uniformed pension plan during 2014 in excess of contributions required to fund the pension plan, which resulted in an unallocated reserve fund in the amount of \$1,023 at December 31, 2015, as noted in the Effect section below. In addition, it was previously recommended that the township liquidate the unallocated reserve fund of the pension plan by transferring the assets, which represent nonstate aid funds, to the township’s general fund. However, the township failed to transfer the excess funds to the general fund as of the date of this report. In addition, during the current audit period, the township again made contributions to the non-uniformed pension plan in excess of pension costs required to fund the plan during 2016, as illustrated below:

	<u>2016</u>
Actual municipal pension costs	\$ 14,489
State aid allocated <i>(net of excess state aid noted in Finding No. 2)</i>	<u>(10,240)</u>
Municipal contributions required to fund plan	<u>\$ 4,249</u>
Actual municipal contributions made	\$ 5,164
Municipal contributions required to fund plan	<u>(4,249)</u>
Excess municipal contributions	<u>\$ 915</u>

Criteria: Section 8 of the township’s agreement with the Pennsylvania Municipal Retirement System states, in part:

The township will contribute quarterly ten percent (10%) of each member’s compensation to the System...

In addition, since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The township again failed to enact adequate internal control procedures to ensure that municipal contributions did not exceed the township’s annual required contribution outlined in the plan’s governing document during 2016 and compliance with the prior recommendation.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, the unallocated reserve fund in the amount of \$1,023 at January 1, 2016 increased to a reserve fund in the amount of \$1,113 at December 31, 2018, as illustrated by the following:

	<u>2016</u>	<u>2017</u>	<u>2018*</u>
Unallocated reserve fund at January 1	\$ 1,023	\$ 2,057	\$ 2,202
Excess municipal contributions	915	-	-
Interest earned on reserve funds	119	145	173
Transfer to members' accounts	<u>-</u>	<u>-</u>	<u>(1,262)</u>
Unallocated reserve fund at December 31	<u>\$ 2,057</u>	<u>\$ 2,202</u>	<u>\$ 1,113</u>

** The unallocated reserve fund balance at December 31, 2019 was unavailable due to PMRS transaction statements not available for 2019 (refer to Finding No. 3).*

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 municipal reserve fund at this time.

Recommendation: We again recommend that the township liquidate the remaining unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets, which represent nonstate aid funds, to the township's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan and 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 and indicated that the township will contact PMRS to liquidate the unallocated reserve fund.

Auditor's Conclusion: Based on the management response, compliance will be evaluated during our next audit of the plan.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – 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 year 2016, as illustrated below:

State aid allocation	\$ 11,095
Actual municipal pension costs <i>(attributed to full-time positions)</i>	<u>(10,240)</u>
Excess state aid	<u>\$ 855</u>

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.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township’s state aid allocation with the plan’s actual defined contribution pension costs.

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 year 2016 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$855 of excess state aid received in the year 2016 to the Commonwealth from the non-uniformed pension plan. 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.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, we recommend that, in the future, plan officials reconcile the township’s annual state aid allocation, along with any available plan forfeitures, with the plan’s annual defined contribution pension costs attributable to full-time positions and reimburse any state aid overpayment received to the Commonwealth.

Management’s Response: Municipal officials agreed with the finding without exception and indicated that the township was unaware that they owed state aid back to the Commonwealth.

Auditor’s Conclusion: Based on the management response, compliance will be evaluated during our next audit of the plan.

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

Condition: The township’s record-keeping system did not provide effective control over the transactional activity of the non-uniformed pension plan during 2019. Municipal officials were unable to furnish annual financial statements or custodial account transaction statements for the non-uniformed pension plan. These annual financial and account statements have historically been provided by the plan’s custodian, PMRS. However, as of the date of this report, annual financial and accounting statements summarizing the pension account activity have not been provided for the year 2019.

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 indicated that the plan’s custodian, PMRS, failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2019. In addition, 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.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of the individual transactions tested during performance of the audit for the year 2019, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations. Additionally, inadequate monitoring of the pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account of the non-uniformed pension plan for the year 2019 to ensure the accuracy and propriety of the transaction activity. In addition, we recommend that municipal officials establish and maintain a financial record-keeping 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.

Management’s Response: Municipal officials agreed with the finding without exception and the township manager verbally expressed that she has tried to contact PMRS for the statements but was advised that they were not yet available.

Auditor’s Conclusion: PMRS has indicated that they are in the process of preparing 2019 Year-End Financial Activity Reports and Annual Member Statements for all municipalities. PMRS has also indicated that they recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. This transition in addition to disruptions in normal government operation due to COVID-19 has resulted in a three to four month delay in the 2019 year-end reporting process. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 16,755	\$ 16,712	\$ 43	\$ 151,050	11.06%
2015	15,677	15,094	583	154,766	9.75%
2016	14,468	15,404	(936)	142,885	10.78%
2017	15,651	15,672	(21)	154,718	10.13%
2018	16,695	15,434	**1,261	164,958	9.36%
2019	17,052	17,052	-		

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

** The township allocated \$1,261 from the unallocated reserve fund to members' account to meet its obligation for 2018 (see Finding No. 1). The \$1 difference in the amount here and in Finding No. 1 is due to rounding.

DARLINGTON 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. Shaun McRoberts
Chairman, Board of Township Supervisors

Mr. Ron Stidmon
Township Supervisor

Mr. Chad Crawford
Township Supervisor

Ms. Megan Greene
Township Manager

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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.