

COMPLIANCE AUDIT

Dunkard Township Non-Uniformed Pension Plan Greene County, Pennsylvania For the Period January 1, 2017 to December 31, 2021

September 2022



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
Dunkard Township
Greene County
Bobtown, PA 15315

We have conducted a compliance audit of the Dunkard Township Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2021. 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 finding 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, 2016 to December 31, 2021, 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, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined that there were no employee contributions required by 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 plan members who separated employment and received lump sum distributions during and subsequent to the current audit period, and through the completion of our fieldwork procedures, 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 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.

Dunkard Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2020 and 2021, 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 Dunkard 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,

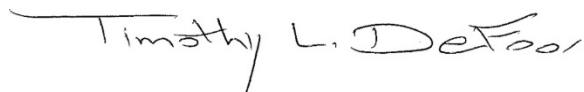
interviewed selected officials and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Dunkard 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 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Finding No. 3 – Failure To Fund Member’s Account
- Finding No. 4 – Failure To Properly Fund Members’ Accounts
- Finding No. 5 – Incorrect Data Certified On Actuarial Valuation Report
- Finding No. 6 – Pension Plan Benefit Change For Supervisor Employees Implemented Without Approval Of Township Auditors
- Finding No. 7 – Failure To Appoint A Chief Administrative Officer

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 recommendations noted in this audit report.

The contents of this report were discussed with officials of Dunkard 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
August 3, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid	3
Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan	5
Finding No. 3 – Failure To Fund Member’s Account.....	9
Finding No. 4 – Failure To Properly Fund Member's Accounts.....	10
Finding No. 5 – Incorrect Data Certified On Actuarial Valuation Report.....	11
Finding No. 6 – Pension Plan Benefit Changes For Supervisor Employees Implemented Without Approval Of Township Auditors.....	13
Finding No. 7 – Failure To Appoint A Chief Administrative Officer	14
Summary of Deposited State Aid and Employer Contributions.....	16
Report Distribution List	17

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 Dunkard 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Dunkard Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a Resolution effective October 1, 1985, as amended, and a separately executed plan adoption agreement, effective July 1, 2020, as amended. Active members are not required to contribute to the plan. Effective July 1, 2020, the municipality was required to contribute \$4,500 per year, per participant to the plan. Further, the municipality may make discretionary contributions on an annual basis. Prior to July 1, 2020, the municipality was required to contribute 10 percent of each participant's annual compensation. As of December 31, 2021, the plan had five active members and two terminated members eligible for vested benefits in the future.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

The township has partially complied with the prior recommendation concerning the following:

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

During the current audit period, the township reimbursed \$580 to the Commonwealth for the overpayment of state aid received in 2016; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2018 and 2020, as further discussed in the Findings and Recommendations section of this report.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by reimbursing \$580 to the Commonwealth for the overpayment of state aid received in 2016; however, a similar condition occurred during the current audit period. 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 in the years 2018 and 2020.

The township certified an ineligible non-uniformed employee and overstated payroll by \$12,342 on the Certification Form AG 385 filed in 2018 and failed to certify an eligible non-uniformed employee and understated payroll by \$38,104 on the Certification Form AG 385 filed in 2020. The data contained on these certification forms 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: Due to recent turnover in personnel responsible for the administration of the plan, municipal officials failed to establish adequate internal control procedures, such as having at least two people review the data certified, to ensure the accuracy of the data certified and compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data. Further, as disclosed in Finding No. 7 of this report, township officials did not appoint a chief administrative officer of the pension plan.

Effect: The data submitted on these certification forms 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 allocations were based on pension costs, the township received a net underpayment of state aid in the amount of \$2,576, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2018	0.10%	\$ 12,342	\$ 1,234
2020	0.10%	\$ (38,104)	<u>\$ (3,810)</u>
Net Underpayment of State Aid			<u><u>\$ (2,576)</u></u>

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

As disclosed in Finding No. 2 of this audit report, the township received \$7,015 of state aid in excess of its pension costs. The net effect of these two findings is a \$4,439 overpayment of state aid to the township that must be returned to the Commonwealth. *(See Finding No. 2.)*

Recommendation: We again recommend that 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: Compliance will be subject to verification during our next audit of the plan.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions
Made In Excess Of Contributions Required To Fund The Plan**

Condition: The township received state aid in excess of the non-uniformed pension plan’s annual pension costs in the years 2017 and 2021, and made municipal contributions in excess of those required to fund the plan in the year 2017, as illustrated below:

	<u>2017</u>	<u>2021</u>
Actual municipal pension costs	\$ 17,023	\$ 23,384
Forfeitures available	<u>(7,050)</u>	<u>(7,752)</u>
Adjusted actual municipal pension costs	9,973	15,632
State aid allocated	<u>(11,601)</u>	<u>(21,019)</u>
Excess state aid to be returned to Commonwealth	<u>\$ 1,628</u>	<u>\$ 5,387</u>
Actual municipal contributions made	\$ 2,292	\$ -
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>
Excess municipal contributions	<u>\$ 2,292</u>	<u>\$ -</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.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, Article III, Section 3.01, Employer Contributions, of the pension plan adoption agreement, dated January 1, 2013, states, in part:

The amount of the Employer Contribution for each eligible person shall be calculated as of the Contribution Date and shall be equal to 10% of the Participant's Annual Compensation.

We note that it has been the township's practice to use the prior year's annual compensation when determining the current year's employer contributions.

Further, Section 6.2, Employer Contribution Formula, of the plan's adoption agreement effective July 1, 2020, as amended, states, in part:

- a. Discretionary contribution.** The Employer will determine in its sole discretion how much, if any, it will make as an Employer Contribution.
- b. Fixed Contribution. Fixed dollar.** \$4,500 for each Participant.
- d. Describe special Rules for determining contributions under Plan:** For 2020, the \$4,500 Employer contribution is per year and is paid out annually. For 2021 and subsequent years, the \$4,500 Employer contribution is per year and is paid out bi-weekly. In addition to the fixed Employer contribution, the Employer may make discretionary contributions on an annual basis in an amount to achieve state aid limit.

Lastly, Article III, Section 3.03, of the pension plan adoption agreement, dated January 1, 2013, states in part:

The Nonvested Account of a Participant shall be forfeited as of the Participant's Forfeiture Date. Forfeitures may first be used to pay administrative expenses. Forfeitures that have not been used to pay administrative expenses shall be applied to reduce Employer Contributions made after the Forfeitures are determined.

We note that Section 8.7, Allocation of Forfeitures, of the plan's adoption agreement effective July 1, 2020, as amended, is silent regarding the application of plan forfeitures.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Due to turnover in municipal officials, plan officials did not have adequate internal control procedures in place to reconcile state aid allocations and employee forfeitures available to reduce municipal contributions with the plan’s actual defined contribution pension costs. Further, as disclosed in Finding No. 7 of this report, township officials did not appoint a chief administrative officer of the pension plan.

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 overpayments of state aid in the years 2017 and 2021 must be returned to the Commonwealth for redistribution.

However, due to certification errors in the years 2018 and 2020, reported in Finding No. 1 of this report, there was a net underpayment of state aid in the amount of \$2,576 in those years. The net effect of these two findings is a \$4,439 overpayment of state aid to the township that must be returned to the Commonwealth. *(See Finding No. 1.)*

Furthermore, as a result of the township making contributions to the plan in excess of contributions required to fund the plan and not using available plan forfeitures towards its pension plan costs, an unallocated reserve fund remains in the amount of \$11,266 as of December 31, 2021, as illustrated by the following:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Unallocated reserve fund at January 1	\$ 7,047	\$ 2,292	\$ 2,294	\$ 2,444	\$ 3,175
Interest on reserve funds	3	2	150	731	339
Applied forfeitures	(7,050)	-	-	-	-
Unapplied forfeitures	-	-	-	-	7,752
Excess municipal contributions	<u>2,292</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unallocated reserve fund at December 31	<u>\$ 2,292</u>	<u>\$ 2,294</u>	<u>\$ 2,444</u>	<u>\$ 3,175</u>	<u>\$ 11,266</u>

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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 unallocated reserve fund at this time.

Recommendation: We recommend that the municipality return the \$4,439 net overpayment of state aid received in the years 2017, 2018, 2020, and 2021 (combined with the effect of Finding No. 1). 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.

We also recommend that the township liquidate the remaining unallocated reserve fund maintained by the pension plan according to provisions outlined in the plan's governing documents.

Furthermore, we recommend that, in the future, plan officials annually reconcile the amount of state aid allocated to the township and available forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Fund Member’s Account

Condition: In 2019, the township did not fund the account of a member who was hired on September 18, 2018.

Criteria: Article III, Section 3.01, Employer Contributions, of the pension plan adoption agreement, dated January 1, 2013, states, in part:

The amount of the Employer Contribution for each eligible person shall be calculated as of the Contribution Date and shall be equal to 10% of the Participant’s Annual Compensation.

We note that it has been the township’s practice to use the prior year’s annual compensation when determining the current year’s employer contributions.

Cause: Due to recent turnover in personnel responsible for the administration of the plan, township officials failed to establish adequate internal control procedures to ensure that eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing documents.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Due to the township’s failure to properly fund the member’s account, plan officials must now pay interest on the delinquent contribution.

Recommendation: We recommend that the township deposit the contribution due to the member’s account for the year 2019, with interest, from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. 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, in the future, township officials properly fund the accounts of all eligible plan members.

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.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Failure To Properly Fund Member’s Accounts

Condition: The township did not fully fund the accounts of four members in 2021 in the total amount of \$4,000, as illustrated below:

<u>2021 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 4,500	\$ 3,500	\$ 1,000
2	4,500	3,500	1,000
3	4,500	3,500	1,000
4	4,500	3,500	<u>1,000</u>
		Total	<u>\$ 4,000</u>

Criteria: Section 6.2, Employer Contribution Formula, of the plan’s adoption agreement effective July 1, 2020, as amended, states, in part:

- a. **Discretionary contribution.** The Employer will determine in its sole discretion how much, if any, it will make as an Employer Contribution.
- b. **Fixed Contribution. Fixed dollar.** \$4,500 for each Participant.
- d. **Describe special Rules for determining contributions under Plan:** For 2020, the \$4,500 Employer contribution is per year and is paid out annually. For 2021 and subsequent years, the \$4,500 Employer contribution is per year and is paid out bi-weekly. In addition to the fixed Employer contribution, the Employer may make discretionary contributions on an annual basis in an amount to achieve state aid limit.

Cause: Effective July 1, 2020, the plan document was amended to increase the employer contribution from \$3,500 to \$4,500, and due to turnover in personnel responsible for the administration of the plan, township officials failed to contribute at the increased rate, and failed to establish adequate internal control procedures to ensure that the plan member’s accounts were properly funded in accordance with the provisions contained in the plan’s governing documents.

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Furthermore, due to the township's failure to properly fund the accounts of several members, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township review the applicable members' accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded 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.

Finding No. 5 – Incorrect Data Certified On Actuarial Valuation Report

Condition: Actuarial valuation report form PC-203A, for the non-uniformed pension plan, with a valuation date of January 1, 2021, submitted to the Municipal Pension Reporting Program (MPRP, formerly the Public Employee Retirement Commission), contained incorrect information. The township disclosed that the pension plan is a Situation 4 type plan with a fixed defined contribution percent or amount. However, plan officials made amendments to the plan effective July 1, 2020, to have both a defined contribution amount and discretionary contributions, whereby, changing the pension plan to a Situation 1 type plan with no fixed or defined contribution percent or amount. Furthermore, the report understated the 2020 municipal contributions by \$23,847.

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.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

In addition, Section 6.2, Employer Contribution Formula, of the plan’s adoption agreement effective July 1, 2020, as amended, states, in part:

- a. Discretionary contribution.** The Employer will determine in its sole discretion how much, if any, it will make as an Employer Contribution.
- b. Fixed Contribution. Fixed dollar.** \$4,500 for each Participant.
- d. Describe special Rules for determining contributions under Plan:** For 2020, the \$4,500 Employer contribution is per year and is paid out annually. For 2021 and subsequent years, the \$4,500 Employer contribution is per year and is paid out bi-weekly. In addition to the fixed Employer contribution, the Employer may make discretionary contributions on an annual basis in an amount to achieve state aid limit.

Cause: The discrepancies in the data submitted to the MPRP occurred because plan officials did not verify that the information was consistent with the plan’s governing document. In addition, due to turnover in personnel responsible for the administration of the plan, current plan officials did not have a thorough understanding of the actuarial valuation report instructions. Furthermore, during 2020, the township changed its pension plan custodian.

Effect: The municipality’s state aid allocations are determined, in part, by the information contained in the actuarial valuation report; however, the effect of the submission of incorrect data on the township’s state aid allocations for the years 2022 and 2023 could not be determined because state aid has not yet been allocated for those years.

Recommendation: We recommend that plan officials contact the Municipal Pension Reporting Program to determine if a revised actuarial valuation report may be filed. If a revised report is prepared and accepted by the Municipal Pension Reporting Program, 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, in the future, plan officials review and verify all information submitted to the Municipal Pension Reporting Program so that future actuarial valuation reports properly reflect the status of the pension plan.

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.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – Pension Plan Benefit Changes For Supervisor Employees Implemented Without Approval Of Township Auditors

Condition: The Dunkard Township Non-Uniformed Pension Plan was amended without the approval of the township auditors.

Effective July 1, 2020, township officials amended the pension plan adoption agreement and changed the employer contribution rate from 10% of participants' annual compensation to a fixed dollar amount of \$4,500 per year, per plan member, and the employer may also make discretionary contributions on an annual basis.

Township officials then amended the pension plan adoption agreement to increase the fixed dollar employer contribution rate component from \$4,500 per member to \$4,700 per member, effective January 1, 2022.

However, in the minutes of the township auditors' annual reorganization meetings held on January 7, 2020, January 5, 2021, and January 4, 2022, no approval of benefit changes is documented.

Criteria: Section 606(b)(3) of Act 69 states:

No change in the nature or rate of the contributions of a defined contribution plan and no change in the benefit formula of a defined benefit plan shall be initiated by the board of supervisors with respect to a supervisor-employee without auditor approval.

Cause: Due to recent turnover in personnel responsible for the administration of the plan, plan officials were unaware of the applicable Act 69 provisions regarding the amendment of pension plan contribution provisions.

Effect: The amendment of plan employer contribution provisions without auditor approval could result in unauthorized pension benefits being paid from plan assets.

Recommendation: We recommend that the express approval of the board of auditors be obtained for all amendments to the plan's employer contribution provisions.

Furthermore, we recommend that, in the future, plan benefit changes receive prior auditor approval in accordance with Act 69.

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

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. 7 – Failure To Appoint A Chief Administrative Officer

Condition: Municipal officials did not appoint a chief administrative officer (CAO) for the plan for the years 2020 and 2021 by ordinance, resolution, or by a motion recorded in the minutes of a council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

DUNKARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – (Continued)

Cause: On January 4, 2012, plan officials named a municipal employee as the chief administrative officer (CAO) of the plan, but on December 2, 2019, that employee terminated employment. Plan officials failed to establish adequate internal control policies to name a replacement municipal employee, or municipal position, as CAO for the plan.

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected and/or delayed and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we recommend that the CAO be formally appointed by ordinance, resolution or motion recorded in the minutes of a council meeting. Such ordinance, resolution or motion should detail the CAO's responsibilities and be filed with other plan documents.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 24,733	None
2017	9,973	None
2018	16,224	None
2019	21,027	None
2020	20,039	\$ 30,808
2021	19,384	None

Note: In 2017, the township met the plan's \$17,023 funding requirement through the deposit of \$9,973 in state aid and the utilization of \$7,050 in terminated employee forfeitures.

In 2021, the township partially met the plan's \$23,384 funding requirement through the deposit of \$19,384 in state aid. The remainder will be met through the utilization of \$7,752 in terminated employee forfeitures. *(See Finding Nos. 2 and 4.)*

DUNKARD 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. Rodger Franks
Chairman, Board of Township Supervisors

Ms. Christine Dafonzo
Secretary

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.