

LIMITED PROCEDURES ENGAGEMENT

Greene Township Non-Uniformed Pension Plan Erie County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

April 2018



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
Greene Township
Erie County
Erie, PA 16509

We conducted a Limited Procedures Engagement (LPE) of the Greene Township Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the findings contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether retirement benefits calculated for plan members who retired during the engagement 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 recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Greene Township Non-Uniformed Pension Plan was not being 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 Audit Recommendation – Withdrawal Of Plan Assets Prior To Retirement.
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.
- Finding No. 3 – Failure To Properly Fund Member Accounts.

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

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

The contents of this report were discussed with officials of Greene Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

April 10, 2018



EUGENE A. DEPASQUALE
Auditor General

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GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

Greene Township has partially complied with the prior audit recommendation concerning the following:

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

During the current engagement period, the township returned \$2,179 to the Commonwealth for the excess state aid received in 2013. However, plan officials again failed to establish adequate internal control procedures to assist them in accurately reporting the required pension data.

Noncompliance With Prior Audit Recommendation

Greene Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report.

- Withdrawal Of Plan Assets Prior To Retirement

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Withdrawal Of Plan Assets Prior To Retirement

Condition: As disclosed in the 2 prior audit reports, pension plan assets maintained in an unallocated insurance contract were improperly withdrawn and distributed to an active member of the pension plan. During our current engagement period, a similar condition occurred. During 2016, pension plan assets in the amount of \$10,613 maintained in an unallocated insurance contract were improperly withdrawn and distributed to an active member of the pension plan.

Criteria: Section 6.05 of Article VI of the plan adoption agreement dated May 26, 1998, as amended, provides that participant loans shall not be permitted.

In addition, Article VIII of the adoption agreement, provides that distributions from the plan are only authorized in the event of a retirement, death, or disability.

Furthermore, Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide benefit payments upon eligibility for retirement, not for distributions prior to retirement benefit eligibility.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation and prevent unauthorized distributions to active plan members.

Effect: Allowing distributions from member accounts prior to their eligibility to receive retirement benefits violates the plan’s adoption agreement, the purpose for which state aid was allocated to the municipality and undermines the integrity of the pension plan.

Recommendation: We again recommend that plan officials establish adequate internal control procedures to ensure that all distributions from the pension plan are made in accordance with the provisions contained in the plan’s governing document.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Auditor’s Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with our prior audit recommendation by returning \$2,179 to the Commonwealth for the state aid overpayment received in 2013; however, a similar condition occurred during the current period. The township overstated payroll by \$1,982 on the Certification Form AG 385 filed in 2015, overstated payroll by \$2,842 on the Certification Form AG 385 filed in 2016 and overstated payroll by \$5,471 on the Certification Form AG 385 filed in 2017. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation and ensure the accuracy of the data certified.

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 plan. Because the township’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2015	8.45%	\$ 1,982	\$ 167
2016	8.45%	2,842	240
2017	8.45%	5,471	462
Total Overpayment of State Aid			<u>\$ 869</u>

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

Recommendation: We recommend that the overpayment of state aid, in the amount of \$869, plus interest, 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 the check.

We also again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

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

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.

Finding No. 3 – Failure To Properly Fund Members' Accounts

Condition: The township did not fund the accounts of eligible members in 2014 and 2016 in the amounts of \$1,322 and \$1,880, respectively. In addition, the township made excess contributions to one member's account in 2014 in the amount of \$481.

Criteria: The plan's governing document, as amended, established the municipal contribution rate at 8.45 percent of previous year's payroll.

Cause: Plan 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.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

Furthermore, due to the township's failure to properly fund the accounts of eligible 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 the accounts 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.

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 25,940	None
2013	22,742	\$ 2,652
2014	26,426	3,833
2015	29,877	1,529
2016	24,965	3,798
2017	28,206	4,273

GREENE 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. Richard F. Allgeier, Jr.
Chairman, Board of Township Supervisors

Mr. John D. Bartnicki
Secretary

Ms. Linda M. Bliley
Treasurer

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