

# COMPLIANCE AUDIT

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## Greene Township Non-Uniformed Pension Plan Erie County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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August 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  
Greene Township  
Erie County  
Erie, PA 16509

We have conducted a compliance audit of the Greene Township Non-Uniformed Pension Plan for the period January 1, 2018 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 findings contained in our prior report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit. State aid allocations that were deposited into the pension plan for the years ended December 31, 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 retired or elected to vest, and plan members who separated employment and received a lump-sum distribution 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 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 or payable to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined 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.

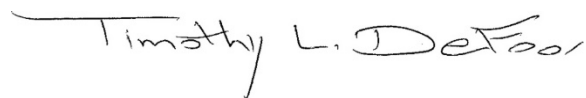
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Greene Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Greene 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 – Withdrawal Of Plan Assets Prior To Retirement
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 4 – Partial Compliance With Prior Recommendation – Failure To Properly Fund Member Accounts

Finding Nos. 1, 3 and 4 contained in this audit report repeat conditions that were cited in our previous report that have not been fully corrected by the township. We are concerned by the township's failure to correct the previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

The contents of this report were discussed with officials of Greene 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 9, 2022

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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 Greene 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 Greene Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of an adoption agreement effective January 1, 1996, as amended. The plan was established June 9, 1970. Active members are not required to contribute to the plan. The municipality is required to contribute 8.45 percent of each member's previous year's annual compensation to the plan. As of December 31, 2021, the plan had 10 active members, 2 terminated members eligible for vested benefits in the future and 1 retiree receiving pension benefits.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendations

Greene Township has partially complied with the prior recommendations 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 \$952 to the Commonwealth for the total overpayment of state aid received in 2015, 2016 and 2017; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data, as further discussed in the Findings and Recommendations section of this report.

- Failure To Properly Fund Members' Accounts

During the current audit period, the township reviewed members' accounts and made the necessary adjustments. However, plan officials again failed to implement adequate procedures to ensure the proper funding of members' accounts, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendation

Greene Township has not complied with the prior 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 Recommendation – Withdrawal Of Plan Assets  
Prior To Retirement**

Condition: As disclosed in the two most recent reports, pension plan assets maintained in an unallocated insurance contract were improperly withdrawn and distributed to active members of the pension plan. In 2019, a similar situation occurred and plan assets in the amount of \$88,734, maintained in an unallocated insurance contract were improperly withdrawn and distributed to an active member of the pension plan.

Criteria: Section A-6.05 of Article VI 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.

Further, 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: There was turnover in officials charged with governance of the plan and the township again failed to establish adequate internal control procedures to limit subsequent distributions from the pension plan to those authorized in accordance with provisions of the plan document and ensure compliance with the prior recommendation.

Effect: Allowing distributions to members prior to their eligibility to receive such retirement benefits is contrary to the plan agreement, the purpose for which state aid was allocated to the municipality under Act 205 and undermines the integrity of the pension plan.

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.



GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We again recommend that plan officials establish adequate internal control procedures to ensure that all future distributions from the pension plan are made 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: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so. Due to the potential withhold of state aid, 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 plan.

**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 years 2018 and 2019, as illustrated below:

	<u>2018</u>	<u>2019</u>
State aid allocation	\$ 32,095	\$ 36,773
Actual municipal pension costs	(31,633)	(36,546)
Excess state aid	\$ 462	\$ 227

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.

In addition, Section A-3.01(b) of amending Resolution No. 21-2005, states, in part:

The employer shall contribute on behalf of each Participant meeting the requirements...8.45% of the previous year’s annual compensation.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: There was turnover in officials charged with governance of the pension plan and the township lacked adequate internal control procedures to annually 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 years 2018 and 2019, in the total amount of \$689, must be returned to the Commonwealth for redistribution. It should be noted however, that due to certification errors made during the years 2018 and 2019, *as reported in Finding No. 3*, there was a total overpayment of state aid for the audit period and the combined effect on state aid, \$12,981, which must be returned to the Commonwealth, includes the above amounts (*refer to Finding No. 3*).

Recommendation: We recommend that, in the future, plan officials reconcile the township's annual state aid allocation with the plan's annual defined contribution 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.

**Finding No. 3 – Partial Compliance With Prior 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 the prior recommendation by reimbursing the Commonwealth for the total overpayment of state aid received during 2015, 2016 and 2017. However, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data for the current audit period.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

The township certified an ineligible employee and overstated payroll by \$25,424, \$31,167, and \$34,872 on the Certification Form AG 385 filed in 2018, 2020 and 2021, respectively, and certified two ineligible employees and overstated payroll by \$62,156 on the Certification Form AG 385 filed in 2019. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year. In addition, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions. In addition, the plan’s governing document is more stringent than Act 205 and requires a one-year waiting period prior to participation in the pension plan.

Cause: There was turnover in officials charged with governance of the pension plan and the township again failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure adherence with the instructions accompanying Form AG 385, along with the plan’s governing document which mandates a one year waiting period prior to participation in 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 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>
2018	8.45%	\$ 25,424	\$ 2,148
2019	8.45%	62,156	5,252
2020	8.45%	31,167	2,634
2021	8.45%	34,872	2,947
Total Overpayment of State Aid			<u>\$ 12,981</u>

*As disclosed in Finding No. 2 of this report, the township received \$689 of state aid in excess of its pension costs and the combined effect of these two findings is \$12,981 which must be returned to the Commonwealth.*

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$12,981, 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 again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed 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: Due to the potential withhold of state aid, 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 plan.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Partial Compliance With Prior Recommendation – Failure To Properly Fund Members' Account**

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by making necessary adjustments to plan members' accounts; however, a similar situation occurred during the current audit period. The township did not properly fund the account of an eligible member in 2019 in the amount of \$1,454, made excess contributions to the same member during 2021 in the amount of \$597, and made excess contributions to another member's account during 2019 in the amount of \$2,235.

Criteria: Section A-3.01(b) of amending Resolution No. 21-2005, states, in part:

The employer shall contribute on behalf of each Participant meeting the requirements...8.45% of the previous year's annual compensation.

In addition, Section A-3.01 of Article III of the plan adoption agreement dated May 26, 1998, as amended, states, in part, that employer contributions shall be made to plan members who are employed on the last day of the plan year and have been credited with more than 500 hours of service during the plan year.

Further, Section A-2.01, of Article II of the plan adoption agreement, states, in part, the minimum service for plan eligibility is one year of service.

Cause: There was turnover in officials charged with governance of the pension plan and the township again failed to implement 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 or receiving benefits in excess of entitlement in accordance with the plan's governing document.

Furthermore, due to the township's failure to properly fund the referenced member's accounts, the township must now pay interest on the delinquent contribution.

Recommendation: We recommend that the township review 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.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

In addition, we again 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: We are concerned that the municipality has not fully complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

GREENE TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

In addition, Finding No. 3 cites a total overpayment of state aid to the township in the amount of \$12,981, plus interest, and may lead to a total withholding of state aid in the future unless those findings are corrected. A check in this amount with interest, 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.

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

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 24,965	\$ 6,674
2017	28,206	4,273
2018	31,633	1,529
2019	36,546	1,040
2020	40,315	1,219
2021	36,505	597



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. John D. Bartnicki**  
Chairman, Board of Township Supervisors

**Ms. Lindsay Ethridge**  
Treasurer

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