

COMPLIANCE AUDIT

Kennedy Township Service Employees' Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

December 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 Commissioners
Kennedy Township
Allegheny County
Coraopolis, PA 15108

We have conducted a compliance audit of the Kennedy Township Service Employees' 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all active employees employed during the audit period amounting to \$18,726, \$18,292, \$17,547 and \$16,869, for the years 2018, 2019, 2020 and 2021, respectively, made during the audit period.
- We determined whether retirement benefits calculated for plan members who retired 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 to the recipients.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- 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.

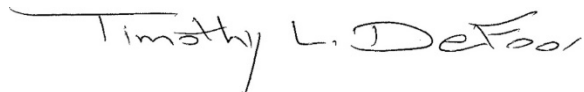
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Kennedy Township Service Employees' Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Kennedy Township Service Employees' 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Recommendation - Failure To Fully
And Timely Pay The Minimum Municipal Obligation Of The
Plan

The finding contained in this report repeats a condition that was cited in our previously released 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 pension plan report.

The contents of this report were discussed with officials of Kennedy 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
December 6, 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 Kennedy Township Service Employees' 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.

The Kennedy Township Service Employees' Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No 168, as amended. The plan is also affected by the provisions of collective bargaining agreements (CBA) between the township and its service employees. The plan was established March 9, 1976. Active members are required to contribute three (3.0) percent of gross wages to the plan. The municipality is required to contribute 10 percent of each member's gross wages to the plan. Effective January 2, 2021, all employees covered by the CBA were afforded the opportunity to stay in the current pension plan or transfer to the Laborers' District Council of Western Pennsylvania Pension Fund. As of December 31, 2021, the plan had three remaining active members.

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

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

- Failure To Fully And Timely Pay The Minimum Municipal Obligation Of The Plan

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Recommendation – Failure To Fully And Timely Pay
The Minimum Municipal Obligation Of The Plan**

Condition: As disclosed in the prior audit report, plan officials did not fully and timely pay the 2015, 2016 and 2017 minimum municipal obligations (MMOs) of the Service Employees' defined contribution pension plan as required by Act 205. Although the outstanding portions of the MMOs due for 2015, 2016 and 2017 were eventually deposited into the plan on February 28, 2017, March 9, 2017, and July 5, 2018; respectively, as of the date of this report, plan officials failed to include interest on the untimely deposits in accordance with Act 205.

In addition, during the current audit period, a similar condition occurred. Plan officials failed to deposit a portion (\$1,321) of the plan's 2019 MMO until August 25, 2020, and include interest as required by Act 205 with the late payment. Furthermore, the payment for the plan's 2020 MMO was erroneously deposited into the police pension plan on February 9, 2021, and not timely corrected or funds properly transferred until June 10, 2022; again, without applicable interest as prescribed by the Act.

Criteria: Section 303(e) of Act 205 states, in part:

Any amount of the minimum municipal obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Treasury Department of the United State with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The township again failed to establish and implement adequate internal control procedures to ensure that MMOs due to the Service Employees' defined contribution pension plan are timely remitted and/or include interest if made after the respective due dates in accordance with Act 205 requirements. Additionally, the township lacked adequate procedures to timely identify the deposit error which occurred during 2021 and was not corrected until the plan was eventually reconciled in May 2022.

Effect: Due to the township's failure to fully and timely fund the pension plan in accordance with Act 205, the township must now pay all outstanding interest on the untimely deposits and allocate these amounts accordingly to pension plan participants.

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Continued

Recommendation: We again recommend that the municipality pay the interest due on the untimely deposits to the service employees' defined contribution pension plan in accordance with Section 303(e) of Act 205 and allocate such amounts accordingly, to pension plan participants. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

In addition, we again recommend that, in the future, plan officials establish adequate internal control procedures to ensure that amounts due to the service employees' defined contribution pension plan are remitted timely and/or include interest in accordance with Act 205.

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.

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 52,779	\$ 2,412
2017	53,282	3,983
2018	57,858	9,791
2019	59,791	6,550
2020	52,394	11,324
2021	None	20,581

KENNEDY TOWNSHIP SERVICE EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Greg Clarke
Township Manager

Mr. Chris DiNardo
President, Board of Township Commissioners

Ms. Kathleen Myers
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.