

# COMPLIANCE AUDIT

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## Middle Smithfield Township Non-Uniformed Pension Plan Monroe County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

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April 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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**TIMOTHY L. DEFOOR  
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Board of Township Supervisors  
Middle Smithfield Township  
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We have conducted a compliance audit of the Middle Smithfield Township Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2020. 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.
- 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.
- 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 \$103,977, \$114,425, \$125,280 and \$142,385, for the years 2017, 2018, 2019 and 2020, respectively, made during the audit period.
- We determined whether retirement benefits calculated for plan members who retired, elected to vest, and/or received a lump-sum distribution during 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 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 this report 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.

The Middle Smithfield Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Middle Smithfield 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 Middle Smithfield 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 – Receipt Of State Aid In Excess Of Entitlement

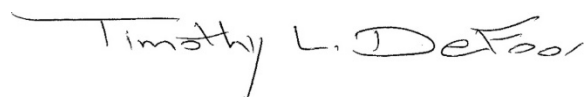
Finding No. 2 – Noncompliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Findings No. 1 and Finding No. 2 contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct these previously reported findings and strongly encourage timely implementation of the recommendation noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Middle Smithfield 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  
March 23, 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 Middle Smithfield Township Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Middle Smithfield Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance 218, effective December 4, 2017, and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. Prior to December 4, 2017, the plan was locally controlled by the provisions of Ordinance No. 197, and a plan agreement adopted pursuant to Act 15. The plan was established January 1, 1990. Active members are required to contribute two percent of compensation to the plan. The municipality is required to contribute six percent of compensation. As of December 31, 2020, the plan had 27 active members, 9 terminated members eligible for vested benefits in the future, and 7 retirees receiving pension benefits.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendation

Middle Smithfield Township has partially complied with the prior recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

The municipality returned the excess state aid with interest compounded annually from the date of receipt of payment at a rate earned by the plan, on September 26, 2017. However, plan officials again failed to correctly reconcile the township's annual state aid allocation, along with available employee forfeitures, with the plan's annual pension cost as discussed further in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendation

Middle Smithfield Township has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

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

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement**

Condition: As disclosed in the Status of Prior Findings section of this report, the municipality partially complied with the prior recommendation by returning the excess state aid with interest, to the Commonwealth. However, a similar condition occurred during the current audit period. The township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2021, as illustrated below:

Actual municipal pension costs	\$ 95,858
Forfeitures available	<u>(11,923)</u>
Adjusted actual municipal pension costs	83,935
State aid allocated	<u>(89,524)</u>
Excess state aid	<u><u>\$ (5,589)</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.

Cause: Plan officials again, failed to establish adequate internal control procedures to reconcile the township’s state aid allocation and employee forfeitures available to reduce municipal contributions with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the year 2021 must be returned to the Commonwealth for redistribution.



MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the municipality return the \$5,589 of excess state aid received in the year 2021 to the Commonwealth from the non-uniformed pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

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. 2 – Noncompliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: As disclosed in the prior report, the township failed to comply with the instructions accompanying Certification Form AG 385 to assist them in accurately reporting required pension data. A similar condition occurred during the current audit period. The township understated payroll by \$42,504 on the Certification Form AG 385 filed in 2018 and also failed to certify an eligible non-uniformed employees (1 unit) and understated payroll by \$57,044 on the Certification Form AG 385 filed in 2021. 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: The township's failure to include the eligible employee was attributed to a clerical oversight and the township lacked adequate internal control procedures to timely identify the omission. In addition, the township also failed to implement adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the data certified prior to submission as previously recommended.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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 an underpayment of state aid as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll (Understated)</u>	<u>State Aid (Underpayment)</u>
2018	6%	\$ (42,504)	\$ (2,550)
2021	6%	(57,044)	<u>\$ (3,423)</u>
Total Underpayment of State Aid			<u>\$ (5,973)</u>

Although the township will be reimbursed for the applicable underpayment of state aid due to the township’s certification errors, the full amount of the state aid allocations were not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan’s funding obligation. However, since the township received state aid in excess of the plan’s actual pension costs during the year 2021 as disclosed in Finding No. 1, the township will not receive the additional state aid for 2021 (\$3,423) noted above.

Recommendation: We 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.

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.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan**

Condition: The municipality’s accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2020. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, municipal officials indicated that the plan’s custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2020.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2020 to ensure the accuracy and propriety of the transaction activity.

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

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Auditor's Conclusion: It was noted that the plan custodian recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. In addition, the custodian has taken active measures to resolve these issues and anticipates distribution of the 2020 reports and statements for their plans the last week of March and completion of the 2020 financial reporting this summer. Moreover, the custodian expects 2021 financial reports to be distributed before the end of 2022. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll***	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 72,591	\$ 62,359	\$ 10,232	\$ 1,074,145	5.81%
2015	74,568	72,767	1,801	1,227,465	5.93%
2016	74,899	74,832	67	1,232,974	6.07%
2017	81,763	75,391	6,372	1,347,716	5.59%
2018	87,381	63,570	23,811	1,441,021	4.41%
2019	91,401	94,422	(3,021)	1,508,007	6.26%
2020	91,271	91,306	(35)		

\* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

\*\* The SRC and the actual Contributions in Relation to the SRC were provided by the plan custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account. Based on actual records provided by the municipality, we noted the following:

In 2014, the township met the plan's \$68,779 funding requirement through the deposit of \$57,437 in state aid, \$6,450 in employer contributions and allocation of \$4,892 in terminated employee forfeitures.

In 2015, the township met the plan's \$74,789 funding requirement through the deposit of \$64,606 in state aid and allocation of \$10,183 in terminated employee forfeitures.

In 2016, the township met the plan's \$75,605 funding requirement through the deposit of \$68,966 in state aid and \$6,639 in terminated employee forfeitures.

In 2017, the township met the plan's \$81,803 funding requirement through the deposit of \$59,644 in state aid, \$19,760 in employer contributions and allocation of \$2,399 in terminated employee forfeitures.

MIDDLE SMITHFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

In 2018, the township met the plan's \$87,401 funding requirement through the deposit of \$79,733 in state aid, \$727 in employer contributions and allocation of \$6,941 in terminated employee forfeitures.

In 2019, the township met the plan's \$91,400 funding requirement through the deposit of \$87,231 in state aid, \$560 in employer contributions and allocation of \$3,610 in terminated employee forfeitures.

In 2020, the township met the plan's \$91,271 funding requirement through the deposit of \$90,020 in state aid and \$1,286 in employer contributions according to township records. However, we were unable to verify total deposits due to unavailability of 2020 custodial transaction statements as noted in Finding No. 3 above.

\*\*\* Due to the timing of this audit, covered-employee payroll for 2020 was not provided in this schedule.

MIDDLE SMITHFIELD 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

**Ms. Annette Atkinson**  
Chairperson, Board of Township Supervisors

**Ms. Michele Clewell**  
Secretary

**Mr. Richard Cardamone, CPA, CGMA**  
Pennsylvania Municipal Retirement System

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