

COMPLIANCE AUDIT

Monroe County Control Center Non-Uniformed Pension Plan

Monroe County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2021

January 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Directors
Monroe County Control Center
Monroe County
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We have conducted a compliance audit of the Monroe County Control Center 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 \$207,029, \$223,887, \$239,938, and \$254,524, 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, elected to vest and 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, 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.

The Monroe County Control Center 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.

Control center officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Monroe County Control Center 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 objective.

This is a revised report previously dated December 14, 2022 and is revised to clarify the Criteria and Effect sections in Finding No. 1.

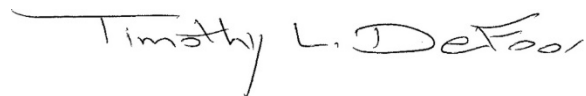
The results of our procedures indicated that, in all significant respects, the Monroe County Control Center Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

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 the Monroe County Control Center and, where appropriate, their responses have been included in the report. We would like to thank Control center officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
January 11, 2023

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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 Monroe County Control Center 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.

Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

The Monroe County Control Center Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Resolution No. 001-2017, effective January 1, 2018, and a separately executed plan agreement with the plan's custodian, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the control center and its employees. The plan was established January 1, 1985. Active members are required to contribute eight (8.0) percent of compensation to the plan. The control center was required to contribute 9.44 percent of compensation per member in the year 2018, 19.03 percent of compensation per member in the year 2019, 13.50 percent of compensation per member in the year 2020, and 8 percent of compensation per member in the year 2021. As of December 31, 2021, the plan had 34 active members, 4 terminated members eligible for vested benefits in the future, and 7 retirees receiving pension benefits.

MONROE COUNTY CONTROL CENTER NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The control center failed to certify an eligible employee (1 unit) and understated payroll by \$33,400, \$46,014, and \$27,646 on the Certification Forms AG 385 filed in 2019, 2020, and 2022, respectively. In addition, officials failed to certify three eligible employee (3 units) and understated payroll by \$146,972 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.

Furthermore, 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 failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the reported data prior to submission.

MONROE COUNTY CONTROL CENTER NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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 control center’s state aid allocations were based on unit value, the impact of the certification errors on the control center’s annual state aid allocations is as follows:

<u>Year</u>	<u>Units (Understated)</u>	<u>Unit Value</u>	<u>State Aid (Underpayment)</u>
2019	(1)	\$ 5,121	\$ (5,121)
2020	(1)	4,924	(4,924)
2021	(3)	4,797	(14,392)
2022	(1)	5,180	(5,180)

Pursuant to Section 402(f)(2) of Act 205 cited in the Criteria above, the control center’s annual state aid allocations are limited to the plan’s actual annual pension costs. Accordingly, the additional state aid to which the township is entitled is limited to \$2,656 in 2020 and \$12,666 in 2021. The township is not entitled to additional state aid in 2019 and 2022. Although the additional state aid totaling \$15,322 for the years 2020 and 2021 will be allocated to the control center, the full amount of the 2020 and 2021 state aid allocations were not available to be deposited timely and therefore resulted in the control center having to make additional municipal contributions in order to meet the plan’s funding obligation.

Recommendation: We 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.

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.

MONROE COUNTY CONTROL CENTER NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – 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 years 2021. 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 years 2021.

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 years 2020 and 2021 to ensure the accuracy and propriety of the transaction activity.

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

MONROE COUNTY CONTROL CENTER NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (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. 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.

MONROE COUNTY CONTROL CENTER 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	\$ 212,157	\$ 150,748	\$ 61,409	\$1,651,696	9.13%
2015	189,228	142,582	46,646	1,717,102	8.30%
2016	182,846	149,963	32,883	1,796,358	8.35%
2017	217,502	151,412	66,090	1,791,759	8.45%
2018	160,448	159,269	1,179	1,695,999	9.39%
2019	322,943	158,855	164,058	1,739,298	9.39%
2020	248,634	145,507	103,127	1,822,428	9.14%
2021	156,484	156,484	-		

* 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 Contributions in Relation to the SRC were provided by the custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.

In 2014, the control center met the plan's \$211,888 funding requirement through the deposit of \$147,162 in state aid, \$5,467 in employer contributions and allocation of \$59,259 in terminated employee forfeitures.

In 2015, the control center met the plan's \$189,227 funding requirement through the deposit of \$141,144 in state aid, \$6,826 in employer contributions and allocation of \$41,257 in terminated employee forfeitures.

In 2016, the control center met the plan's \$183,078 funding requirement through the deposit of \$144,194 in state aid, \$5,769 in employer contributions and allocation of \$33,115 in terminated employee forfeitures and.

In 2017, the control center met the plan's \$217,501 funding requirement through the deposit of \$150,940 in state aid and allocation of \$66,561 in terminated employee forfeitures.

In 2018, the control center met the plan's \$160,448 funding requirement through the deposit of \$159,269 in state aid and allocation of \$1,179 in terminated employee forfeitures.

MONROE COUNTY CONTROL CENTER NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

In 2019, the control center met the plan's \$322,943 funding requirement through the deposit of \$158,217 in state aid and allocation of \$164,058 in terminated employee forfeitures.

In 2020, the control center met the plan's \$248,634 funding requirement through the deposit of \$142,791 in state aid and allocation of \$103,127 in terminated employee forfeitures.

*** Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

MONROE COUNTY CONTROL CENTER NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Ms. Joanne Kochanski
Chairman, Board of Directors

Mr. Gary Hoffman
Director of Communications

Mr. Shawn Datesman
Operations Director

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

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.