COMPLIANCE AUDIT

Monroe Township
Non-Uniformed Pension Plan

Snyder County, Pennsylvania

For the Period
January 1, 2017 to December 31, 2020

May 2022

TIMOTHY L. DeFOOR
AUDITOR GENERAL

Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

TIMOTHY L. DEFOOR
AUDITOR GENERAL

Board of Township Supervisors
Monroe Township
Snyder County
Selinsgrove, PA 17870

We have conducted a compliance audit of the Monroe 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 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 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 the plan member who retired 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 monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.

- We determined whether the January 1, 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.

The Monroe 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 Monroe 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 Monroe 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	–	Improper Vesting Distribution
Finding No. 2	–	Inadequate Accounting/Reporting Over Activity Of The Pension Plan
Finding No. 3	–	Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

The contents of this report were discussed with officials of Monroe 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

Timothy L. DeFoor
Auditor General
April 14, 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 Monroe 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 Monroe Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2020-8, effective September 22, 2020, and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. Prior to September 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 2009-1, and a plan agreement adopted pursuant to Act 15. The plan was established July 23, 1991. Active members are not required to contribute to the plan but may contribute up to but no more than 15 of their compensation to the plan. The municipality is required to contribute quarterly eight and five-tenths percent (8.5%) of each member's compensation. As of December 31, 2020, the plan had four active members, one terminated member eligible for vested benefits in the future, and one retiree receiving pension benefits.

Finding No. 1 – Improper Vesting Distribution

Condition: A member terminated employment during 2018 with 5 years of credited service (80% vested) and an account balance of $17,395. However, the member's entire account balance was improperly forfeited (100%) and the township used the forfeited balance to pay a portion of the 2018 municipal liability ($9,120) and a portion of the 2019 municipal liability ($8,275). None of the balance was returned to the member's account to provide for future benefits due the vested member at superannuation as of the date of this report.

Criteria: Section 9 of the plan agreement, which was adopted by Ordinance No. 2009-1, states:

> After two (2) years of credited service, a member may vest by filing an application with the Board within ninety (90) days of separation from employment. At the time of separation, the portion of the municipal contributions that shall be vested shell be twenty percent (20%) after two (2) years of credited service but less than three (3) years of credited service. A member will earn an additional twenty percent (20%) of the benefit for each additional full year of credited service until fully vested after six (6) years of credited service. Upon-attainment of the superannuation age requirement found in Section 2 of this agreement, a basic benefit will be calculated in accordance with Section 3 of this agreement.

Pursuant to the aforementioned above, the terminated employee was entitled to 80 percent of the accumulated account balance.

In addition, Section 14 states:

> In the event a member's service with the Township is terminated for any reason whatsoever before the funds set aside for such member are vested or if the member elects not to receive a benefit, then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due from the Township for the remaining or future members of this Plan.
>
> If funds exist within the plan due to a member's forfeiture of a benefit, the Township may annually elect to contribute all or a portion of such unanticipated assets to the members' accounts in a given calendar year by adopting a resolution and filing it with the Board. Any such contribution or reallocation of assets shall be done on an equal basis with all active members earning credit on December 31 of the year in which the contribution or allocation is to be made receiving a distribution equal to the percentage that their individual accumulated account balance reflects of the plan's total members' account balances as of December 31. In no event shall the contribution or reallocation exceed the authorized limits so defined for a qualified plan under federal law.

Finding No. 1 – (Continued)

Cause: Township officials failed to establish adequate internal control procedures to ensure that the plan's custodian correctly determined the terminated member's vested status.

Effect: As a result, the terminated member's vested account balance ($13,916) is not available for future benefits at superannuation in accordance with the plan document.

Recommendation: We recommend that the township, with assistance from the plan custodian, restore the member's vested account balance in the amount of $13,916, plus any interest earned, in accordance with the plan document.

We also recommend that municipal officials establish adequate internal control procedures to monitor future distributions made from the plan to ensure compliance 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 subsequent audit of the plan.

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 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.

Finding No. 2 – (Continued)

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: Municipals officials agreed with the finding without exception

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 beginning 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.

Finding No. 3 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

Condition: As disclosed as a verbal observation during the prior engagement, municipal officials failed to adopt the mandatory provisions of Act 205 regarding professional services contracts.

Criteria: Section 701-A of Act 205, as amended by Act 44 of 2009, defines a "Professional Services Contract", as follows:

> "Professional services contract." A contract to which the municipal pension system is a party that is:
> (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
> (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

> Each municipal pension system … shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

> **Review.** Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.
>
> **Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.
>
> **Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Finding No. 3 – (Continued)

> **Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the processional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The township's failure to comply in all respects with the previous recommendation and the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the township's pension plan could result in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the investment and advisory services contract for the township's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which include maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan, including authorizations/approvals of township officials in the official minutes of formal board meetings and the required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of such professional services contracts.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

MONROE 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	$ 11,958	$ 10,542	$ 1,416	$ 139,507	7.56%
2015	11,763	12,689	(926)	142,200	8.92%
2016	12,796	9,854	2,942	149,133	6.61%
2017	14,738	12,816	1,922	171,982	7.45%
2018	12,628	160	12,468	146,923	0.11%
2019	12,525	3,869	8,656	145,947	2.65%
2020	12,591	12,591	-		

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

In 2018, the township met the plan's 12,628 funding requirement through the deposit of $3,508 in employer contributions and $9,120 in terminated employee forfeitures *(refer to Finding No. 1)*.

In 2019, the township met the plan's 12,525 funding requirement through the deposit of $3,868 in state aid, $381 in employer contributions and $8,275 in terminated employee forfeitures *(refer to Finding No. 1)*.

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

MONROE 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. David A. Heimbach
Chairman, Board of Township Supervisors

Ms. Stephanie McKinney
Secretary/Treasurer

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.