COMPLIANCE AUDIT

Monroe Township Non-Uniformed Pension Plan

Cumberland County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2021

October 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
Monroe Township
Cumberland County
Mechanicsburg, PA 17055-9794

We have conducted a compliance audit of the Monroe 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 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. 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 elected to vest and/or separated employment 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, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020, and 2021, 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 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 objective.

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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Failure To Correctly Allocate Forfeiture To Members' Accounts

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
September 30, 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.

The Monroe Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution 2013-12 of 2013. Active members are not required to contribute to the plan. The municipality is required to contribute 15 percent of compensation per quarter. As of December 31, 2022, the plan had six active members and one terminated member eligible for vested benefits in the future.

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

Condition: The township certified an ineligible non-uniformed employees (1 unit) and overstated payroll by $16,905 on the Certification Form AG 385 filed in 2021. The individual was laid-off during March 2020 and not rehired by the township during 2020 and therefore, did not meet the certification requirements prescribed under Act 205 during 2021. The data contained on this certification form 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.

Cause: The township failed to establish adequate internal control procedures, such as having another individual review the reported data, to ensure the accuracy of the data certified on the AG 385 prior to submission.

Effect: The data submitted on this certification form 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 allocation was based on unit value, the incorrect certification of pension data affected the township's state aid allocation, as identified below:

Year	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2021	1	$ 4,797	$ 4,797

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

Recommendation: We recommend that the total excess state aid, in the amount of $4,797, 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.

Finding No. 1 – (Continued)

We also 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 pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Subsequent to the exit conference, the township returned the $4,797 overpayment of state aid, with interest, to the Commonwealth.

Auditor's Conclusion: Based upon the management response, it appears the township has complied with the recommendation and will be evaluated in the next audit of the plan

Finding No. 2 – Failure To Correctly Allocate Forfeiture To Members' Accounts

Condition: During the years 2020 and 2021, the township incorrectly applied plan forfeitures according to the plan's governing document. The township allocated unvested portions of prior terminated members' account balances to the remaining active participants of the plan in lieu of making its fourth quarter annual required municipal contributions during the respective years.

Criteria: Section No. 3.01 of Article III of the separately executed plan agreement adopted by Resolution 2013-21, requires an employer contribution *(Article I of the plan agreement defines employer contributions as contributions made by the employer.)* equal to 15 percent of the Participants' Quarterly Compensation.

Section No. 3.01 further states, in part:

> Except as provided under this paragraph and in Article VIII, the assets of the Plan shall never be used for the benefit of the Employer and are held for the exclusive purpose of providing benefits to Participants and their Beneficiaries and for defraying reasonable expenses of administering the Plan.

Finding No. 2 – (Continued)

Additionally, Section 3.04 of Article III, states, in part:

> …Forfeitures that have not been used to pay administrative expenses shall be allocated to each person eligible for Employer Contributions as of the last Contribution Date in the Plan Year. The amount allocated to each eligible person shall be equal to such forfeitures for the plan year multiplied by the ratio of such person's Annual Compensation as of such date to the Total Annual Compensation of all such person. Upon their allocation to the Accounts, Forfeitures shall be deemed to be Employer Contributions.

Currently, there is no language evident in the plan's governing document authorizing the township's use of forfeitures to reduce, replace, or modify, its annual, required employer contribution *(currently 15 percent as noted in Section 3.01 above)*. The plan language, as it currently appears in Section 3.04, requires an allocation of non-vested, forfeited amounts to each eligible plan member, annually, separate from and in addition to the annual required employer municipal contribution.

Cause: Township officials misinterpreted the provisions of the plan document adopted in 2013 pertaining to forfeitures and employer contributions. Also, in trying to determine past practice, there were no previous examples of partially vested employees terminating with resulting forfeitures since the plan document's adoption in 2013. Moreover, the township did not consult with its solicitor and/or document any additional guidance received regarding any plan language that was not clearly specified in the plan document.

Effect: The failure to properly allocate forfeitures resulted in eligible plan members being denied benefits *($6,729 in 2020 and $14,029 for 2021)* to which entitled in accordance with the plan's governing document.

Due to the township's failure to properly allocate forfeitures in accordance with the plan document, the township must now deposit $20,758, plus interest, for the years 2020 and 2021 and allocate to members accordingly.

Recommendation: We recommend that the township deposit the outstanding contributions due the pension plan in the amount of $20,758, representing amounts due the 6 eligible members' accounts for the years 2020 and 2021, with interest from the date forfeitures were known and available through the date of deposit of the outstanding contributions. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly allocate forfeitures to eligible plan members in accordance with the plan document.

Finding No. 2 – (Continued)

Management's Response: Township officials provide the following response:

> The Township has always intended to acknowledge and use Forfeitures to offset administrative expenses and reduce Employer Contributions. In 2020 and 2021, this practice was put into place with regards to members' accounts and they were properly funded using the Forfeiture available along with the balance of the **15** percent owed being covered by Employer Contributions.
>
> To avoid confusion on this issue in the future, the Township will adopt an Ordinance cleaning up the definition of a Forfeiture to ensure this opinion of how Forfeitures are to be used are no longer questioned moving forward.
>
> In closing, the Township asks this finding be rescinded because all members' accounts were properly funded during the audit period at their **15** percent contributions rate with regards to what is required by the plan.

Auditor's Conclusion: The department acknowledges that although it may have been the intent of the township to allocate funds in the manner as performed during the years 2020 and 2021, the provisions in the plan document in place at the time of the aforementioned forfeitures do not prescribe such methodology *(i.e., forfeitures to be used to reduce required municipal contributions)* as currently structured. Therefore, the finding remains as stated and compliance will be evaluated in the next audit of the plan.

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

Year Ended December 31	State Aid	Employer Contributions
2016	$ 26,248	$ 20,688
2017	32,118	17,861
2018	32,791	22,417
2019	35,843	11,086
2020	29,543	14,388
2021	33,581	3,094

Note: In 2020, the township met the plan's $50,660 funding requirement through the deposit of $29,543 in state aid, $14,388 in employer contributions and the allocation of $6,729 in terminated employee forfeitures *(refer to Finding No. 2)*.

In 2021, the township met the plan's $49,816 funding requirement through the deposit of $33,581 in state aid, $2,206 in employer contributions and the allocation of $14,029 in terminated employee forfeitures *(refer to Finding No. 2)*.

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. Philip Kehoe
Chairman, Board of Township Supervisors

Mr. A.W. Castle, III
Vice-Chairman, Board of Township Supervisors

Ms. Karen Lowery
Chief Administrative Officer/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.