

COMPLIANCE AUDIT

North Strabane Township Non-Uniformed Management Defined Benefit Pension Plan Washington County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

May 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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AUDITOR GENERAL**

Board of Township Supervisors
North Strabane Township
Washington County
Canonsburg, PA 15317

We have conducted a compliance audit of the North Strabane Township Non-Uniformed Management Defined Benefit 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 determined whether retirement benefits calculated for plan members 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 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, 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 North Strabane Township Non-Uniformed Management Defined Benefit 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.

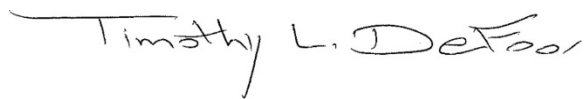
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the North Strabane Township Non-Uniformed Management Defined Benefit Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative 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 North Strabane Township Non-Uniformed Management Defined Benefit 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 – Failure To Fully Pay The Minimum Municipal Obligation Of
The 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 North Strabane 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive, flowing style.

Timothy L. DeFoor
Auditor General
April 12, 2023

CONTENTS

	<u>Page</u>
Background	1
Finding and Recommendation:	
Finding – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan	2
Supplementary Information	4
Report Distribution List	8

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 North Strabane Township Non-Uniformed Management Defined Benefit 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 North Strabane Township Non-Uniformed Management Defined Benefit Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 375 and a separately executed plan agreement with the plan custodian, effective April 1, 2018, adopted pursuant to Act 15. Prior to April 1, 2018, the plan was locally controlled by the provisions of Ordinance No. 359 and a separately executed plan agreement with the plan custodian, effective January 1, 2015, adopted pursuant to Act 15. The plan was established January 1, 2008 and was amended effective January 1, 2015 to restrict membership to non-uniformed employees hired prior to January 1, 2015. Firefighters who were previously in this pension plan were transferred to a newly established plan. Active members are required to contribute 3 percent of compensation and may optionally contribute up to 20 percent of compensation to the plan. As of December 31, 2021, the plan had eight active members, three terminated members eligible for vested benefits in the future, and nine retirees receiving pension benefits from the plan.

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT
DEFINED BENEFIT PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not fully pay the minimum municipal obligation (MMO) of the Non-Uniformed Management Defined Benefit Pension Plan for the year 2019, as required by Act 205. The municipality had an unpaid MMO balance of \$17,108 for the year 2019, calculated for the police chief who is a member of this plan.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum 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 Department of Treasury of the United States 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 failure to pay the MMO calculated for the police chief is attributable to an oversight.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT
DEFINED BENEFIT PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Due to the municipality's failure to fully pay the 2019 MMO by the December 31, 2019, deadline, the municipality must add the 2019 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO due to the non-uniformed management defined benefit pension plan for the year 2019, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials pay the full MMO due the plan.

Management's Response: Municipal officials provided the following response:

During the last Auditor General audit of this plan, it was initially determined that Police Chief [name redacted] was not eligible to participate in this plan, but rather had to be included in the police pension plan. After further investigation, the Auditor relented and determined Chief [name redacted] was eligible to remain in this plan. Documents regarding this incident are attached [redacted]. Following this determination, the township's former Finance Director mistakenly thought the MMO paid for the administration was all that was necessary. We fully admit this mistake and have already contacted PMRS to determine the total amount including interest owed to the plan. Once that calculation is received it will be remitted.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be determined during our next audit of the plan.

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT
DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 5,254,314	\$ 4,646,250	\$ (608,064)	113.1%
01-01-19	4,352,662	5,550,387	1,197,725	78.4%
01-01-21	4,774,508	6,421,694	1,647,186	74.3%

Note: This plan was amended, effective April 1, 2018, to restrict membership to non-uniformed employees hired prior to January 1, 2015. Firefighters who were previously members of this plan were transferred to the North Strabane Township Fire Defined Benefit Pension Plan.

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT
DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT
DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 159,495	\$ 262,366	\$ (102,871)	\$1,047,908	25.04%
2015	154,723	259,428	(104,705)	1,286,588	20.16%
2016	155,428	205,781	(50,353)	1,260,795	16.32%
2017	112,439	161,396	(48,957)	1,228,364	13.14%
2018	111,639	111,639	-	927,886	12.03%
2019	62,332	45,224	**17,108	523,639	8.64%
2020	16,164	16,164	-	537,453	3.01%
2021	306,358	306,358	-	*	

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

** See the finding contained in the Finding and Recommendation section of this audit report.

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT
DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Not available
Remaining amortization period	5 years
Asset valuation method	Not available
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses
Projected salary increases *	4.1%
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year, subject to plan limitations

The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020, which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.

NORTH STRABANE TOWNSHIP NON-UNIFORMED MANAGEMENT
DEFINED BENEFIT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Neil Kelly
Chairman, Board of Township Supervisors

Mr. Marcus Staley
Vice Chairman, Board of Township Supervisors

Mr. Harold Close
Township Supervisor

Ms. Emily Holmes
Township Supervisor

Mr. Robert Ross
Township Supervisor

Mr. Andrew L. Walz
Township Manager

Ms. Ashley Stack
Assistant Township Manager

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

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