

# COMPLIANCE AUDIT

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## Springettsbury Township Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

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February 2021



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  
Springettsbury Township  
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We have conducted a compliance audit of the Springettsbury Township Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2019. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2019, 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 made during the audit period for all 61 active employees employed during 2017, all 56 active employees employed during 2018, and all 59 active employees employed during 2019, amounting to \$59,317, \$58,326, and \$64,799, for the years 2017, 2018, and 2019, respectively.
- We determined whether retirement benefits calculated for the plan members who retired and the plan members who separated employment and received a lump-sum distribution 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable 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 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.

Springettsbury Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2017 and 2018, which are available at the township's offices. Those 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 Springettsbury 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.

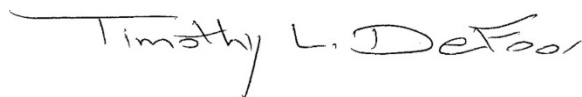
The results of our procedures indicated that, in all significant respects, the Springettsbury Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following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

- Finding No. 1 – Noncompliance With Prior Recommendation - Improper Provision Contained In The Plan's Adoption Agreement
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid
- Finding No. 3 – Failure To Properly Fund Member Accounts

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations 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 Springettsbury 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

January 29, 2021

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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 Springettsbury 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 Springettsbury Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution 85-09, as amended, and a separately executed plan agreement with ICMA Retirement Corporation. The plan is also affected by the provisions of collective bargaining agreements between the township and its union and non-union non-uniformed employees. The plan was established January 1, 1985. Active members are required to contribute 2 percent of earnings to the plan. The municipality is required to contribute 9 percent of each member's earnings for non-union employees and 9.5 percent of each member's earnings for union employees. As of December 31, 2019, the plan had 55 active members, 20 terminated members eligible for vested benefits in the future, and 11 retirees receiving pension benefits.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Springettsbury Township has complied with the prior recommendation concerning the following:

- Failure To Make Proper Distribution To Terminated Vested Member

During the current audit period, \$37,723 was placed into an account for the terminated member and the township is awaiting confirmation from the member to distribute the funds. It is available for distribution whenever the member elects to do so.

Noncompliance With Prior Recommendation

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

- Improper Provision Contained In The Plan's Adoption Agreement

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Recommendation – Improper Provision Contained In The Plan’s Adoption Agreement**

Condition: As disclosed in our prior audit report, the plan’s separately executed ICMA Retirement Corporation Adoption Agreement for the township’s non-union employees was restated effective April 1, 2017, and although an improper loan provision was removed in accordance with prior audit recommendations, the agreement still contains an improper provision for in-service distributions to members. Section XI of the agreement states that in-service distributions are permitted after a participant attains age 70½. In-service distributions were made to one active plan member during the current audit period.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not to provide loans or distributions to be made to active plan members prior to their eligibility for retirement benefits.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure compliance with this department’s prior audit recommendation.

Effect: The unauthorized in-service distribution provision violates the intent of Act 205 to only provide distributions to plan members upon their retirement or termination of employment with the municipality.

Recommendation: We again recommend that municipal officials take appropriate action to eliminate the in-service distribution provision from the plan’s adoption agreement at their earliest opportunity to do so.

We also again recommend that municipal officials establish internal control procedures, such as having at least two people review each account withdrawal application, to ensure all member account withdrawals are in accordance with the provisions of the plan’s governing document.



SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

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

As documented in previous PA municipal pension compliance audits, the Auditor General's office noted findings concerning both loans and in-service employee distributions approved by Township management. The audit findings once again stressed the distribution violation of the intended use of retirement funding under Act 205.

In 2017, action was taken to address the 2013-2016 audit finding concerning loans from the ICMA 401 municipal pension plan. Resolution 2017-38 was approved to amend the Non-Uniform ICMA retirement plan to eliminate in-service loans. The ICMA Governmental Money Purchase Plan and Trust Adoption Agreement for Plan 107663 was reaffirmed that loans were not permitted under the current plan. The resolution was approved by the Township's Board of Supervisors on July 27, 2017.

Within the current audit period 2017-2019, the Township's municipal pension audit determined that in-service distributions were again completed, due to a medical related request, and approved by management. The office decision to allow the distribution is a clear violation of plan qualifications.

Over the last several audits dating back to 2013, we recognize Township management changes occurred including four Township Managers, three Finance Directors, and two Human Resources Directors, all key positions in supervising pension administration. With those personnel changes, multiple assignments for the acting Chief Administrative Officer were also approved by the Board of Supervisors.

Currently, steps are in process to evaluate the terms of our Non-Uniform Pension agreement and to take the necessary action in providing adequate training on municipal pension administration. Internal controls will be examined in processing pension documents through our Human Resources department, and the proper approval channels will be enforced by the Chief Administrative Officer. The Township understands that Act 205 only permits distributions to plan members upon their retirement or termination of employment with the municipality. Moving forward, distributions and loans will not be permitted, of any kind, following the provisions set forth by Act 205.

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

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The township certified 5 ineligible non-uniformed employees (5 units) and overstated payroll by \$137,865 on the Certification Form AG 385 filed in 2017. The township certified 3 ineligible non-uniformed employees (3 units) and overstated payroll by \$103,103 and certified 1 ineligible police officer (2 units) and overstated payroll by \$12,827 on the Certification Form AG 385 filed in 2018. The township certified 5 ineligible non-uniformed employees (5 units) and overstated payroll by \$176,771 on the Certification Form AG 385 filed in 2019. The township certified 6 ineligible non-uniformed employees (6 units) and overstated payroll by \$121,166 on the Certification Form AG 385 filed in 2020. The data contained on these certification forms 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. Additionally, the instructions accompanying Certification Form AG 385 prescribes the following criteria for certification purposes:

Each Non-Uniformed Employee must meet each of these conditions anytime between January 1st and December 31st of the *prior calendar year*:

- a. Be an active, full-time non-uniformed employee employed by the municipality.
- b. Be employed for any six (6) consecutive months during the *prior calendar year*.
- c. Work not less than 35 hours per week.
- d. Be a member of a non-uniformed employee pension plan and meet all of its requirements.

Each Police Officer must meet each of these conditions anytime between January 1st and December 31st of the *prior calendar year*:

- a. Be an active, full-time police officer employed by the municipality.
- b. Be employed for any six (6) consecutive months during the *prior calendar year*.
- c. Work not less than 35 hours per week.
- d. Be a member of a police pension plan and meet all of its requirements.

In addition, Section V.2 of the non-uniformed plan agreement with ICMA Retirement Corporation states that an employee is eligible for plan participation after 6 months of employment.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: For the non-uniformed plan, plan officials failed to take into account the plan entry date of each member when determining eligibility for certification. For the police plan, plan officials failed to take into account the termination date of the member when determining eligibility for certification. In addition, the township failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 and the accuracy of the required pension data reported.

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 unit value, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2017	Non-Uniformed	5	\$ 4,588.25	<u>\$ 22,941</u>
2018	Police	2	\$ 4,684.38	\$ 9,369
	Non-Uniformed	3	\$ 4,684.38	<u>14,053</u>
			Total	<u>\$ 23,422</u>
2019	Non-Uniformed	5	\$ 5,120.49	<u>\$ 25,602</u>
2020	Non-Uniformed	6	\$ 4,923.83	<u>\$ 29,543</u>
Total Overpayment of State Aid				<u>\$ 101,508</u>

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the police pension plan, the plan’s MMOs will not be fully paid.

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$101,508, 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.

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

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

Auditor's Conclusion: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure To Properly Fund Member Accounts**

Condition: The township paid excess municipal contributions to the account of one member in 2017 in the amount of \$291. Also, the township did not fully fund the accounts of two members in 2017 in the total amount of \$813 and 1 member in 2018 in the amount of \$315, as illustrated below:

<u>2017 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess (Due)</u>
1	\$ 4,754	\$ 5,045	\$ 291
2	2,332	2,248	(84)
3	4,840	4,111	(729)
		Total	<u><u>\$ (522)</u></u>

<u>2018 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions In Excess (Due)</u>
1	\$ 2,479	\$ 2,164	\$ (315)

Criteria: Section VI(A) of the plan’s governing document sets the employer contribution rate at 9.0% for non-union employees and 9.5% for union employees.

Cause: Plan officials indicated that the overpayment in 2017 was due to an error in payroll for one pay period. The payroll to the member was corrected; however, the contributions made to the member’s account were not corrected. Plan officials did not provide a reason for the other errors. In addition, plan officials failed to establish adequate internal control procedures to ensure that the plan members’ accounts were properly funded.

Effect: The failure to properly allocate contributions to the members’ accounts has resulted in certain plan members receiving benefits in excess of those to which they are entitled and other members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

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.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the township in the amount of \$101,508, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.



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

Year Ended December 31	State Aid	Employer Contributions
2014	None	\$ 253,481
2015	None	281,365
2016	None	252,155
2017	None	236,418
2018	None	244,359
2019	None	299,656

Note: In 2014, the township met the plan's \$295,366 funding requirement through the deposit of \$253,481 in employer contributions and the allocation of \$41,885 in terminated employee forfeitures. In 2017, the township met the plan's \$274,141 funding requirement through the deposit of \$236,418 in employer contributions and the allocation of \$37,723 in terminated employee forfeitures. In 2018, the township met the plan's \$272,907 funding requirement through the deposit of \$244,359 in employer contributions and the allocation of \$28,548 in terminated employee forfeitures.

SPRINGETTSBURY TOWNSHIP NON-UNIFORMED PENSION PLAN  
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This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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**Mr. Mark Swomley**  
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Township Manager

**Ms. Teresa Hummel**  
Finance Director

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