

LIMITED PROCEDURES ENGAGEMENT

Springfield Township Non-Uniformed Pension Plan Fayette County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

August 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Springfield Township
Fayette County
Mill Run, PA 15464

We conducted a Limited Procedures Engagement (LPE) of the Springfield Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2013 to December 31, 2018, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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.
- Whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Springfield Township Non-Uniformed Pension Plan was not being 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 Certified On Actuarial Valuation Report
Resulting In An Overpayment Of State Aid

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

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

The contents of this report were discussed with officials of Springfield Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

July 26, 2019



EUGENE A. DEPASQUALE
Auditor General

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SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

Condition: Actuarial valuation report form 203A, for the non-uniformed pension plan, with a valuation date of January 1, 2017, submitted to the Municipal Pension Reporting Program (formerly the Public Employee Retirement Commission), contained incorrect information. The township incorrectly reported four active members on Line 13 when the actual number of active members was three.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: Because the municipality's state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in the municipality receiving a state aid allocation for the year 2018 incorrectly based on a normal cost percentage of 6.467320%, instead of 4.850491%. As a result, the township received excess state aid in the total amount of \$1,700, calculated as follows:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll</u>	<u>State Aid Entitlement</u>	<u>State Aid Received</u>	<u>Excess State Aid</u>
2018	4.850491%	\$ 105,144	\$ 5,100	\$ 6,800	\$ 1,700

Although the township received an overpayment of state aid, the township correctly reconciled its 2018 state aid allocation with the plan's actual 2018 defined contribution pension costs which totaled \$5,100 and returned \$1,700 of excess state aid to the Commonwealth on November 21, 2018. Therefore, no additional state aid is due to the Commonwealth.

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Recommendation: We recommend that plan officials contact the Municipal Pension Reporting Program to determine if a revised actuarial valuation report may be filed, which will ensure that the 2019 state aid allocation is based on accurate actuarial information. If a revised report is prepared and accepted by the Municipal Pension Reporting Program, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

We also recommend that, in the future, plan officials review and verify all information submitted to the Municipal Pension Reporting Program so that future actuarial valuation reports properly reflect the status of the pension plan.

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

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

Finding No. 2 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township understated payroll by \$4,003 on the Certification Form AG 385 filed in 2018. The data contained on this certification form is based on prior calendar year information. It appears that the township reported 2016 payroll instead of 2017 payroll on the Certification Form AG 385 filed in 2018.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time employees for the prior calendar year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

SPRINGFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

Effect: The data submitted on Certification Form AG 385 is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. In addition, due to the township filing the January 1, 2017 actuarial valuation report with incorrect data (see Finding No. 1), the township’s 2018 state aid allocation was computed based on both incorrect payroll and an incorrect normal cost percentage. Using the corrected data to determine the township’s 2018 state aid allocation would have resulted in an additional state aid allocation of \$194 as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2018	4.850491%	\$ 4,003	\$ 194

As disclosed in Finding No. 1, the township already reconciled its 2018 state aid allocation with the plan’s actual 2018 defined contribution pension costs and returned excess state aid to the Commonwealth. Therefore, the state aid underpayment of \$194 will not be allocated to the township since the township is not entitled to additional state aid for 2018.

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 engagement.

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

Year Ended December 31	State Aid	Employer Contributions
2013	\$ 3,010	\$ 390
2014	3,400	None
2015	3,400	None
2016	3,342	1,758
2017	4,731	369
2018	5,100	None

SPRINGFIELD 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. Ross Miner
Chairman, Board of Township Supervisors

Ms. Donna J. Kooser
Secretary-Treasurer

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.