

LIMITED PROCEDURES ENGAGEMENT

Taylor Township Non-Uniformed Pension Plan Lawrence County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

March 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
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Board of Township Supervisors
Taylor Township
Lawrence County
West Pittsburgh, PA 16160

We conducted a Limited Procedures Engagement (LPE) of the Taylor Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017 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 municipal officials took appropriate corrective action to address the findings contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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, 2012 to December 31, 2017, 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, 2012 to December 31, 2017, 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 Taylor 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 – Noncompliance With Prior Recommendation – Participation Agreement Not Adopted By Ordinance Or Resolution
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

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 Taylor 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.



EUGENE A. DEPASQUALE
Auditor General

February 25, 2019

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TAYLOR TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendations

Taylor Township has complied with the prior LPE report recommendations concerning the following:

- Improper Distributions From Allocated Insurance Contract

During the current engagement period, there were no improper partial or whole cash surrenders from the allocated insurance contracts that were not addressed in the prior report.

Partial Compliance With Prior LPE Report Recommendation

Taylor Township has partially complied with the prior LPE report recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current engagement period, the township returned \$2,625 to the Commonwealth for the excess state aid received in the years 2012 and 2013; however, the township again received state aid in excess of the non-uniformed pension plan's pension costs for full-time plan members in the year 2015, as further discussed in the Findings and Recommendations section of this report.

Non-Compliance With Prior LPE Report Recommendation

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

Participation Agreement Not Adopted By Ordinance Or Resolution

TAYLOR TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Participation Agreement Not Adopted By Ordinance Or Resolution

Condition: As noted in the prior report, the terms, provisions, and conditions of the non-uniformed pension plan were implemented in a separately executed plan agreement dated April 9, 1998. However, the plan agreement has not been formally adopted by ordinance or resolution of the township that would properly adopt the plan’s benefit structure.

Criteria: Proper internal control procedures dictate that the provisions of the pension plan be formally adopted by a municipal ordinance or resolution.

Cause: Plan officials again failed to formally adopt the provisions of the plan agreement through a properly executed ordinance or resolution and ensure compliance with the prior recommendation.

Effect: The municipality has not established a formal acknowledgement of the plan agreement with the union through a properly executed ordinance or resolution.

Recommendation: We again recommend that municipal officials take appropriate action to formally adopt the plan document through a properly executed ordinance or resolution.

Management’s Response: Municipal officials agreed with the finding without exception. Township officials have prepared a draft ordinance establishing the pension plan and intend to adopt the ordinance at a future board meeting.

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

TAYLOR TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by returning \$2,625 to the Commonwealth for the excess state aid received in the years 2012 and 2013. However, the township again received state aid in excess of the non-uniformed pension plan’s pension costs for full-time plan members in the year 2015, as illustrated below:

State aid allocation	\$	1,028
Municipal pension costs for full-time plan members		-
Excess state aid		\$ 1,028

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

TAYLOR TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

Cause: Plan officials again failed to reconcile the township’s allocation of state aid received in 2015 to the plan’s annual defined contribution pension costs attributable to full-time plan members and ensure compliance with the prior recommendation.

Effect: It is this Department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the year 2015, in the amount of \$1,028, must be returned to the Commonwealth for redistribution.

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

Recommendation: We recommend that the municipality return the \$1,028 overpayment of state aid received in the year 2015 to the Commonwealth from the township’s general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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 evidence of payment.

Furthermore, we again recommend that, in the future, plan officials reconcile the amount of state aid allocated to the township with the plan’s annual defined contribution pension costs attributable to full-time members and reimburse any excess state aid received to the Commonwealth.

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 report and through the next plan engagement.

TAYLOR TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: Municipal officials failed to adopt the mandatory provisions of Act 205, as amended by Act 44 of 2009, regarding professional services contracts.

Criteria: Section 701-A of Act 205, as amended, 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.

TAYLOR TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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 professional 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 any future investment and advisory services contracts for the township's pension plan.

Recommendation: We again recommend that municipal officials obtain a comprehensive understanding of the provisions of Act 205, as amended, for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which include the maintaining of sufficient and appropriate supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan as well as, the proper inclusion of 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 Response: Municipal officials agreed with the finding without exception. Management stated that they would implement a resolution that adopts the Act 44 Procedures at their earliest opportunity to do so.

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

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

Finding No. 2 contained in this report cites an overpayment of state aid to the township in the amount of \$1,028, 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.

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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 1,017	\$ 3,983
2013	1,017	3,983
2014	999	3,001
2015	None	4,000
2016	None	4,000
2017	None	4,000

TAYLOR 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. Joe Pauletich
Chairman, Board of Township Supervisors

Ms. Janis Holl
Secretary and Chief Administrative Officer

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.