

COMPLIANCE AUDIT

Union Township Non-Uniformed Cash Balance Pension Plan

Washington County, Pennsylvania
For the Period
January 1, 2020 to December 31, 2022

April 2024



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
Union Township
Washington County
Finleyville, PA 15332

We have conducted a compliance audit of the Union Township Non-Uniformed Cash Balance Pension Plan for the period January 1, 2020 to December 31, 2022. 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.
- 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 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 also tested individual voluntary employee contributions made during the audit period for one active employee employed during the years 2021 and 2022 totaling \$836 and \$1,199, respectively.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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.

The Union Township Non-Uniformed Cash Balance 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 Union Township Non-Uniformed Cash Balance 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.

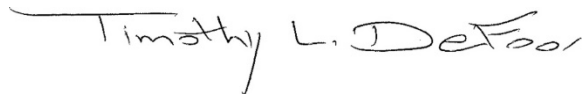
The results of our procedures indicated that, in all significant respects, the Union Township Non-Uniformed Cash Balance Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the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

- Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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 Union 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
March 18, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement	3
Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan.....	5
Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.....	7
Potential Withhold of State Aid.....	9
Supplementary Information	10
Report Distribution List	11

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 two 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 Union Township Non-Uniformed Cash Balance 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 Union Township Non-Uniformed Cash Balance Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 1, adopted pursuant to Act 15, effective January 1, 2019, and a separately executed plan agreement with the plan custodian. Prior to January 1, 2019, the plan was locally controlled by the provisions of Ordinance No. 2011-3, adopted pursuant to Act 15, and a plan adoption agreement with the plan custodian. The plan was established January 1, 2011. Active members are not required to contribute to the plan. The municipality is required to contribute \$750 per member per quarter. As of December 31, 2022, the plan had no active members and one retiree receiving pension benefits.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Union Township has complied with the prior recommendations concerning the following:

- Failure To File Actuarial Valuation Report

The township filed the 2019 Actuarial Valuation Report for the non-uniformed cash-balance pension plan; and

- Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

During the current audit period, the township provided annual financial statements of transactions of the custodial account of the non-uniformed cash balance pension plan for all years under audit.

Partial Compliance With Prior Recommendation

Union Township has partially complied with the prior recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

The township returned the excess state aid received in the years 2017 and 2019 to the Commonwealth totaling \$12,247. However, the township again received state aid in excess of the non-uniformed pension plans' annual pension costs as further discussed in the Findings and Recommendations section of this audit report.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit 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 excess state aid received in the years 2017 and 2019 to the Commonwealth. However, the township again received state aid in excess of the non-uniformed pension plans’ annual pension costs in the years 2020 and 2021, partly due to the availability of a terminated member’s forfeiture, as illustrated below:

	<u>2020</u>	<u>2021</u>
State aid allocation	\$ 21,153	\$ 13,515
Forfeitures available - Non-Uniformed Cash Balance Plan	2,250	3,000
Actual municipal pension costs - Non-Uniformed Cash Balance Plan	(2,250)	(3,000)
Actual municipal pension costs - Non-Uniformed Union Plan	<u>(11,327)</u>	<u>(12,315)</u>
Excess state aid	<u>\$ 9,826</u>	<u>\$ 1,200</u>

In addition, as of the date of our audit fieldwork completion, \$8,279 of the 2020 excess state aid remains in the township’s general fund and has not been deposited into the pension plans according to municipal records.

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.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The township continued to experience a high rate of turnover in personnel responsible for the administration of the plan and current plan officials are uncertain of the cause. In addition, plan officials failed to establish adequate internal control procedures to reconcile the township's state aid allocation and the employee forfeitures available to reduce municipal contributions with the plans' actual annual pension costs.

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 received during the current audit period must be returned to the Commonwealth for redistribution.

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation has been complied with.

Recommendation: We recommend that the municipality return the \$9,826 of excess state aid received in the year 2020 to the Commonwealth. *(Note: Since Finding No. 3 indicates that the township received an overpayment of state aid in 2021 due to certification errors, the recommendation to return 2021 state aid will be included in that finding, and no additional return of 2021 state aid is required in this finding.)* 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 recommend that, in the future, plan officials reconcile the township's annual state aid allocation and any available employee forfeitures with the plans' annual pension costs 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 audit report and through our next audit of the plan.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The township made contributions to the non-uniformed cash balance pension plan in excess of contributions required to fund the plan, as illustrated below:

	<u>2021</u>	<u>2022</u>
Actual municipal pension costs	\$ 3,000	\$ 3,500
Forfeitures available to reduce municipal contributions	(3,000)	(2,015)
Adjusted actual municipal pension costs	-	1,485
State aid allocation	(1,200)	-
Municipal contributions required to fund plan	\$ -	\$ 1,485
Actual municipal contributions made	\$ 1,304	\$ 3,500
Municipal contributions required to fund plan	-	1,485
Excess municipal contributions	\$ 1,304	\$ 2,015

Criteria: Section 3.01 of the separately executed plan agreement effective January 1, 2019 set the required municipal contribution rate at \$750 per calendar quarter.

Cause: The township continued to experience a high rate of turnover in personnel responsible for the administration of the plan and current plan officials are uncertain of the cause. In addition, the township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan’s governing document.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: As a result of the township making contributions to the non-uniformed cash balance pension plan in excess of contributions required to fund the plan, an unallocated reserve fund in the amount of \$2,448, which existed as of January 1, 2020, increased to \$10,775 as of December 31, 2022, as illustrated by the following:

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Unallocated reserve fund at January 1	\$ 2,448	\$ 9,470	\$ 9,819
Excess municipal contributions	-	1,304	2,015
Excess state aid deposited into the plan	1,547	1,200	-
Interest earned on reserve funds	460	845	956
Unapplied forfeiture	7,265	-	-
Applied forfeitures	<u>(2,250)</u>	<u>(3,000)</u>	<u>(2,015)</u>
Unallocated reserve fund at December 31	<u>\$ 9,470</u>	<u>\$ 9,819</u>	<u>\$ 10,775</u>

It is the opinion of this department that the township’s failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor and in conjunction with the return of the \$12,719 overpayment of state aid received in the years 2020 and 2021 reported in Finding Nos. 1 and 3, liquidate the remaining unallocated reserve fund maintained by the pension plan according to provisions outlined in the plan’s governing document. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

Furthermore, we recommend that, in the future, plan officials annually reconcile the amount of state aid allocated to the non-uniformed cash balance pension plan and any available forfeitures and municipal contributions made to the pension plan with the pension plan’s annual pension costs.

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.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified two ineligible non-uniformed employees (one in the non-uniformed union plan and one in the non-uniformed cash balance plan) and overstated payroll by \$33,043 on the Certification Form AG 385 filed in 2021 and certified two ineligible non-uniformed employees (one in the non-uniformed union plan and one in the non-uniformed cash balance plan) and overstated payroll by \$36,735 on the Certification Form AG 385 filed in 2022. 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.

Cause: The township continued to experience a high rate of turnover in personnel responsible for the administration of the plan and current plan officials are uncertain of the cause of the certification errors. In addition, plan officials failed to establish adequate internal control to ensure the accuracy of the data certified. Accordingly, the township certified a plan member who did not work six consecutive months and certified an employee who was not a plan member during the year 2020, and certified two employees who were not plan members during the year 2021.

Effect: The data submitted on these 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 pension costs, the incorrect certification of pension data affected the township’s 2021 state aid allocation, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2021	8.7558%	\$ 33,043	\$ 2,893

Because the township failed to file the January 1, 2021 actuarial valuation report for the non-uniformed union pension plan (*see Finding No. 2 in the Union Township Non-Uniformed Union Pension Plan audit report*), the effect of the certification errors on the township’s 2022 state aid allocation could not be determined at this time.

In addition, the township used the overpayment of 2021 state aid to pay the minimum municipal obligations (MMOs) due to the non-uniformed cash balance and non-uniformed union pension plans, therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the overpayment of state aid received in 2021, in the amount of \$2,893, 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.

In addition, since the effect of the certification errors on the township's 2022 state aid allocation could not be determined, we further recommend that municipal officials contact the Department upon receipt of its 2022 state aid allocation to assist the township in determining whether there is an overpayment that needs to be returned.

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.

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.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 3 contained in this audit report cite overpayments of state aid to the township in the amount of \$12,719, plus interest. Conditions of repeat findings of this nature may lead to a total withholding of state aid in the future unless those findings are 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.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 3,790	\$ 1,540	\$ 2,250	\$ 43,404	3.55%
2015	5,823	2,011	3,812	92,018	2.19%
2016	6,040	6,040	-	96,434	6.26%
2017	5,290	7,029	(1,739)	93,679	7.50%
2018	4,630	40	4,590	93,301	0.04%
2019	6,080	6,080	-	81,395	7.47%
2020	2,462	2,462	-	75,069	3.28%
2021	3,000	3,000	-	60,694	4.94%
2022	3,560	3,560	-	78,775	4.52%

* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

** The Statutorily Required Contribution and the actual Contribution were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account.

UNION TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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