

COMPLIANCE AUDIT

Union Township Non-Uniformed Union 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 Union 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2022, 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, 2017 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2019 actuarial valuation report was prepared and submitted by March 31, 2020 in accordance with Act 205 and whether selected information provided on this report 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.
- We determined whether all payments made to the multi-employer union pension plan for the period January 1, 2020 to December 31, 2022 were in accordance with the provisions contained in the collective bargaining agreements.

The township's non-uniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Union Township Non-Uniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

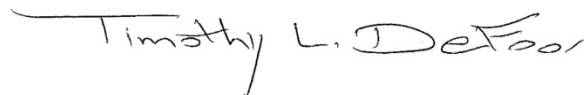
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Union Township Non-Uniformed Union Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Union 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 – Partial Compliance With Prior Audit Recommendation – Failure To File Actuarial Valuation Report
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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

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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 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 Union 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.

As further described in the Letter from the Auditor General included in this report, the township's non-uniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund. The Union Township Non-Uniformed Union Pension Plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed union employees. The plan was established January 1, 1994. Active members are not required to contribute to the plan. The municipality was required to contribute \$114.41 per week per employee in 2020, \$118.41 per week per employee in 2021, and \$122.55 per week per employee in 2022. As of December 31, 2022, the plan had three active members.

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

Compliance With Prior Recommendation

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

- Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

The township returned the overpayment of 2016 state aid in the amount of \$937 to the Commonwealth.

Partial Compliance With Prior Recommendations

Union Township has partially complied with the prior recommendations 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; and

- Failure To File Actuarial Valuation Report

The township filed the 2019 actuarial valuation report but failed to file the 2021 actuarial valuation report for the non-uniformed union pension plan report as further discussed in the Findings and Recommendations section of this audit report.

Noncompliance With Prior Recommendation

Union Township has not complied with the prior recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Although the municipality received reimbursement for the prior state aid underpayment, the township again failed to comply with the instructions that accompany Certification Form AG 385 in accurately reporting the required pension data, as further discussed in the Findings and Recommendations section of this report.

UNION TOWNSHIP NON-UNIFORMED UNION 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 2000 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 UNION 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 UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To File Actuarial Valuation Report

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by completing the January 1, 2019 Act 205 actuarial valuation report and submitting it to the Municipal Pension Reporting Program (MPRP). However, actuarial valuation report Form Type A for the non-uniformed union pension plan with a valuation date of January 1, 2021, was not submitted to MPRP by the March 31, 2022, deadline, as required by Act 205, and remained delinquent at the completion of our audit fieldwork.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

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 and are not familiar with applicable Act 205 filing guidelines.

UNION TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Data from the January 1, 2021 Act 205 actuarial valuation reports is necessary to calculate the township’s 2022 and 2023 state aid allocations; therefore, the township’s 2022 and 2023 state aid allocations cannot be calculated and released until the necessary reports is filed. In addition, the township may receive less state aid than it would have received had the reports been filed in a timely manner.

Recommendation: We recommend that the municipality take immediate action to complete the January 1, 2021 Act 205 actuarial valuation report which was due by March 31, 2022 and submit it to the Municipal Pension Reporting Program. By submitting the report as soon as possible, the municipality can minimize the length of time the pension aid will be withheld due to the delinquent filing of the required report.

Furthermore, to insure that future actuarial filing deadlines are met and to improve pension plan administration, we again recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

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 UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Findings section of this report, the township again failed to comply with the instructions that accompanied Certification Form AG 385. 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*), 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 UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

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 UNION 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 UNION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2017	\$ 10,881	None
2018	8,595	\$ 13,619
2019	19,676	None
2020	11,327	None
2021	12,315	None
2022	None	15,441

UNION TOWNSHIP NON-UNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Ms. Michalle Dupree
Chairman, Board of Township Supervisors

Ms. Diana Kristobek
Secretary

Ms. Mary Ann Kims
Treasurer

Mr. Dennis M. Makel
Solicitor

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