

COMPLIANCE AUDIT

Washington Township Non-Uniformed Pension Plan Greene County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

February 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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AUDITOR GENERAL**

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We have conducted a compliance audit of the Washington Township Non-Uniformed Pension Plan for the period January 1, 2016 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.
- 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 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 for all active employees employed during the audit period amounting to \$5,490, \$6,874, \$7,515 and \$7,652, for the years 2016, 2017, 2018 and 2019, respectively, made during the audit period.
- We determined whether retirement benefits calculated for the lone plan member who retired 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 monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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.

The Washington Township Non-Uniformed 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 Comprehensive Annual 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.

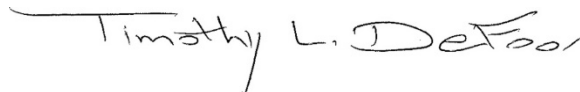
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Washington Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Washington 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 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Eligible Employees Not Participating In The Pension Plan
- Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 5 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

Finding Nos. 1 and 2 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 Washington 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 13, 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 Washington 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 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.

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Washington Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2-1996, and a separately executed plan agreement with the Pennsylvania Municipal Retirement System (PMRS), adopted pursuant to Act 15. The plan was established January 1, 1994. Active members are required to contribute 2 percent of compensation to the plan and have the option to contribute an additional percentage, with the total of the mandatory and optional contributions not to exceed 10 percent of each member's compensation to the plan. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2019, the plan had 5 active members, 1 vested member entitled to benefits in the future and 4 retirees receiving pension benefits. Effective July 1, 2020, the pension plan is locally controlled by the provisions of Ordinance No. 1 of 2020, and a separately executed plan agreement with the PMRS also adopted pursuant to Act 15.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendation

Washington Township has partially complied with the prior recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit, the township reimbursed \$22,371 to the Commonwealth for the excess state aid received in the years 2012, 2013, 2014 and 2015; however, plan officials again failed to reconcile the township's annual state aid allocation with the plan's annual pension costs for full-time plan members as further discussed in Finding No. 1 of this report; and

- Eligible Employees Not Participating In Pension Plan

During the current audit, the township properly enrolled the eligible employees hired during 2016 into the non-uniformed pension plan. However, plan officials failed to contact PMRS to determine what action was needed to properly fund the accounts of these eligible employees, as further discussed in Finding No. 2 of this report.

WASHINGTON TOWNSHIP NON-UNIFORMED 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 reimbursing the Commonwealth for the excess state aid received during 2012 through 2015; however, a similar condition occurred during the current audit period. Plan officials again failed to reconcile the township’s state aid allocation with the plan’s pension costs for its full-time plan members for the year 2016, as illustrated below:

	<u>2016</u>
State aid allocation	\$ 8,306
Actual municipal pension costs <i>(attributed to full-time positions)</i>	<u>(7,938)</u>
Excess state aid	<u>\$ 368</u>

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.

Cause: Plan officials again failed to reconcile the township’s state aid allocation with the plan’s actual defined contribution pension costs during 2016 for its full-time plan members, as previously recommended in the prior report.

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 2016 must be returned to the Commonwealth for redistribution.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality return the \$368 of excess state aid received in the year 2016 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 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 township's annual state aid allocation with the plan's annual defined contribution pension costs for full-time plan members and reimburse any excess state aid received to the Commonwealth.

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

Auditor's Conclusion: 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 pension plan.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Eligible Employees Not Participating In Pension Plan

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by properly enrolling the two employees recently hired during 2016 into the pension plan. However, plan officials failed to contact PMRS to determine what action was required to properly fund the accounts of these eligible employees for 2016 as was also previously recommended. It was further noted that one of the employees (a full-time, non-supervisory member), terminated employment with the township during the current audit period, without being eligible for any future plan benefits, and therefore, is no longer eligible for a contribution for 2016. However, the remaining supervisory-employee's 2016 contribution remains outstanding.

Criteria: Sections 606(b) and (b)(1) of Act 69, state, in part:

Any benefit provided to or for the benefit of a supervisor employed by the township in an employee capacity under this act in the form of inclusion in a pension plan paid for in whole or in part by the township... is determined by the board of township auditors; however:

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Supervisors are eligible for inclusion in township pension plans only if they are employed by the township in any employee capacity under this act. In order to be eligible for inclusion in the plans, supervisor-employees' must meet the same requirements as other employees of the township who are eligible to participate in a pension plan. Pension plans shall not improperly discriminate in favor of a supervisor-employee.

In addition, Section 1 of the pension plan agreement with PMRS states, in part:

Coverage: This plan shall cover all permanent municipal employees, hereinafter referred to as "Member", of the Township.

Cause: Plan officials did not provide a reason why this occurred.

Effect: Although the township eventually enrolled the members into the plan, the failure to properly fund the active member's account for the outstanding contribution due for 2016 resulted in the active plan member being denied benefits to which the active plan member is entitled in accordance with the plan's governing document.

In addition, due to the township's failure to properly fund the current active member's account, the township must now pay interest on the delinquent contribution.

Recommendation: We again recommend that the township contact PMRS to determine what action needs to be taken to properly fund the eligible supervisor-employee's account for the year 2016, with interest, from the date the original municipal contribution was due to the date the actual outstanding contributions is made. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

Management's Response: Municipal officials have contacted PMRS and are in the process of resolving this issue.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

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

	<u>2017</u>
Actual municipal pension costs	\$ 15,284
State aid allocated	<u>(10,955)</u>
Municipal contributions required to fund plan	<u>\$ 4,329</u>
Actual municipal contributions made	\$ 11,806
Municipal contributions required to fund plan	<u>(4,329)</u>
Excess municipal contributions	<u>\$ 7,477</u>

Criteria: Section 12 of the PMRS plan agreement adopted by Ordinance No. 2-1996, states, in part:

The township will contribute quarterly 10% of each members' compensation to the System.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: 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.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: As a result of the township making contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund was generated during 2017 and amounted to \$4,200 at December 31, 2018, as illustrated below:

	<u>2017</u>	<u>2018*</u>
Unallocated reserve fund at January 1	\$ 4	\$ 7,520
Excess municipal contributions	7,477	(9)
Interest earned on reserve funds	39	224
Transfer to members accounts	-	(3,535)
Unallocated reserve fund at December 31	\$ 7,520	\$ 4,200

** Reserve fund balance presented as of December 31, 2018 since the 2019 transaction statements were unavailable as disclosed in Finding No. 5 of this report.*

The unallocated reserve fund maintained by the non-uniformed pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid with the plan’s defined contribution pension costs. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan. Moreover, contributions from general municipal funds in excess of contributions required to fund the plan results in less funds available for other general municipal purposes.

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 liquidate the unallocated reserve fund maintained by the non-uniformed pension plan by transferring the assets, which represent non-state aid funds, to the township’s general fund. 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.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated and municipal contributions made to the pension plan with the pension plan’s annual defined contribution 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.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township understated payroll by \$1,974 on the Certification Form AG 385 filed in 2020. The data contained on this certification form is based on prior calendar year information.

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 positions.

Cause: The payroll understatement occurred due to a clerical error. In addition, the township lacked adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the data certified and compliance with the instructions that accompany Certification Form AG 385 prior to submission.

Effect: The data submitted on this certification form 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 allocation was based on pension costs, the township received an underpayment of state aid as identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
10.00%	\$ 1,974	\$ 197

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2020 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan’s funding obligation.

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 audit of the plan.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

Condition: The township’s record-keeping system did not provide effective control over the transactional activity of the non-uniformed pension plan during 2019. Municipal officials were unable to furnish annual financial statements or custodial account transaction statements for the non-uniformed pension plan. These annual financial and account statements have historically been provided by the plan’s custodian, PMRS. However, as of the date of this report, annual financial and accounting statements summarizing the pension account activity have not been provided for the year 2019.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials indicated that the plan’s custodian, PMRS, failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2019. In addition, municipal officials did not maintain a separate detailed accounting of pension plan transactions, which among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of the individual transactions tested during performance of the audit for the year 2019, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations. Additionally, inadequate monitoring of the pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account of the non-uniformed pension plan for the year 2019 to ensure the accuracy and propriety of the transaction activity. In addition, we recommend that municipal officials establish and maintain a financial record-keeping system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

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

Auditor's Conclusion: PMRS has indicated that they are in the process of preparing 2019 Year-End Financial Activity Reports and Annual Member Statements for all municipalities. PMRS has also indicated that they recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. This transition in addition to disruptions in normal government operation due to COVID-19 has resulted in a three to four month delay in the 2019 year-end reporting process. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

WASHINGTON TOWNSHIP NON-UNIFORMED 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	\$ 11,418	\$ 1,497	\$ 9,921	\$ 109,897	1.36%
2015	10,550	6,731	3,819	103,695	6.49%
2016	9,858	8,267	1,591	96,784	8.54%
2017	15,283	22,761	(7,478)	151,240	15.05%
2018	15,406	11,882	3,524	151,981	7.82%
2019	15,713	15,514	199	***	

* The Statutorily Required Contribution 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 or transfers from the municipal reserve account. In 2014, the township met the plan's \$11,418 funding requirement through the deposit of \$1,497 in state aid and \$9,921 in terminated employee forfeitures.

In 2015, the township met the plan's \$10,550 funding requirement through the deposit of \$6,731 in state aid and \$3,819 in terminated employee for forfeitures.

In 2016, the township met the plan's \$9,858 funding requirement through the deposit of \$8,267 in state aid and \$1,591 in terminated employee forfeitures.

In 2017, the township met the plan's \$15,283 funding requirement through the deposit of \$10,955 in state aid and \$11,806 in employer contributions, resulting in \$7,477 of excess municipal contributions. *See Finding No. 3*

In 2018, the township met the plan's \$15,406 funding requirement through the deposit of \$11,477 in state aid, \$406 in employer contributions and applied \$3,523 of the excess municipal contributions made in 2017. *See Finding No. 3*

In 2019, the township met the plan's \$15,713 funding requirement through the deposit of \$11,822 in state aid, \$3,692 in employer contributions and applied \$199 of the excess municipal contributions made in 2017. However, we were unable to verify total deposits due to 2019 PMRS custodial transaction statements unavailable as of the date of this report. *See Finding No. 5.*

*** Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

Mr. Walter S. Stout
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Pennsylvania Municipal Retirement System

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