

# LIMITED PROCEDURES ENGAGEMENT

---

## Washington Township Non-Uniformed Pension Plan Indiana County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

---

July 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

Board of Township Supervisors  
Washington Township  
Indiana County  
Creekside, PA 15732

We conducted a Limited Procedures Engagement (LPE) of the Washington Township Non-Uniformed Pension Plan for the period January 1, 2014 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 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, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014, 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 all of the plan's allocated insurance contracts, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract 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 Washington 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 finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In An  
Overpayment Of State Aid

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

The contents of this report were discussed with officials of Washington 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.

June 27, 2018

  
EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding– Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid .....	1
Potential Withhold of State Aid .....	4
Summary of Deposited State Aid and Employer Contributions .....	5
Report Distribution List .....	6

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The township certified an ineligible non-uniformed employee and overstated payroll by \$8,450, \$9,785, \$9,210 and \$9,135 on the Certification Form AG 385 filed in 2014, 2015, 2016 and 2017, respectively. 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.

Section 402(j) further states, in part:

The Auditor General shall have the duty of administering the General Municipal Pension System State Aid Program. The Auditor General may promulgate rules and regulations necessary for the efficient administration of this program and may specify the form and content of any forms applicable to the program.

Although the act does not specifically define what constitutes full-time, based on past practice and Section 402(j) above, the department has promulgated that on average, a full-time employee is one who has been employed continuously by the municipality (i.e. performs services each week on a continuous and consistent basis, averaging approximately 35 hours per week and receives other fringe benefits that similar employees classified as full-time and employed by the municipality are entitled).

Cause: The plan's governing document is silent regarding a definition of what constitutes a full-time or part-time employee for participation purposes. According to plan officials, township supervisors consider the employee in question to be a full-time employee who receives a fixed (not hourly) salary and benefits similar to other employees classified as full-time employed by the township. However, the individual only averages a 10-hour work week and plan officials failed to maintain and/or provide enough substantive documentation to evidence that the employee in question was employed continuously by the township on a full-time basis for at least six consecutive months during each of the certification years as stipulated by Act 205.

Effect: Due to the lack of appropriate and substantive documentation to evidence the full-time status of the employee, we are unable to appropriately conclude on the eligibility and inclusion of the aforementioned employee on the Certification Form AG 385 used for state aid purposes filed during the engagement period.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. The township's original state aid allocations for 2014, 2015, 2016 and 2017 were based on the plan's pension costs. However, based on the corrected information, the township was only entitled to state aid allocations based on unit value as identified below:

Year	Normal Cost	Payroll	State Aid Received (a)	Eligible Members (Units)	Unit Value	State Aid Entitlement (b)	State Aid Overpayment (a-b)
2014	15.0%	\$ 96,061	\$ 14,409	3	\$ 3,873	\$ 11,619	\$ 2,790
2015	15.0%	97,973	14,696	3	3,921	11,763	2,933
2016	15.0%	116,374	17,456	3	4,375	13,125	4,331
2017	15.0%	118,010	17,702	3	4,588	13,764	3,938
						Total	<u>\$ 13,992</u>

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMOs will not be fully paid.

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

**Recommendation:** We recommend that the total excess state aid, in the amount of \$13,992, 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.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

WASHINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Management's Response: Municipal officials disagreed with the recommendation indicating that the form (AG 385) has been completed the same for the past 10 years and has gone through 2 pension audits with no such finding.

Auditor's Conclusion: As indicated above, due to the lack of substantive documentary evidence to support the full-time status of the employee, we are unable to appropriately conclude on the eligibility and inclusion of the aforementioned employee on the Certification Form AG 385s submitted during the engagement period. We are not questioning the employee's participation in the township's pension plan, merely the certification of this employee on Certification Form AG 385 utilized in determining the township's state aid under the act. Therefore, based on the criteria cited above, the finding remains as stated. 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.

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

The finding contained in this report cites an overpayment of state aid to the township in the amount of \$13,992, 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.



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

Year Ended December 31	State Aid	Employer Contributions
2012	\$ 7,150	\$ 107
2013	7,257	7,152
2014	14,409	287
2015	14,696	2,760
2016	17,456	245
2017	17,702	6

WASHINGTON 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. Michael G. Armstrong**  
Chairman, Board of Township Supervisors

**Ms. Jill A. Kunkle**  
Chief Administrative Officer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).