

COMPLIANCE AUDIT

Waverly Township Non-Uniformed Cash Balance Pension Plan

Lackawanna County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2021

February 2023



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
Waverly Township
Lackawanna County
Waverly, PA 18471-0008

We have conducted a compliance audit of the Waverly Township Non-Uniformed Cash Balance Pension Plan for the period January 1, 2018 to December 31, 2021. 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 both active employees employed during the audit period amounting to \$4,585, \$4,877, \$5,652 and \$5,985, for the years 2018, 2019, 2020 and 2021, respectively, made during the 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, 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 Waverly 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.

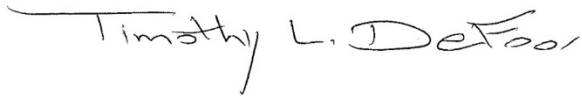
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Waverly Township Non-Uniformed Cash Balance Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 objective.

The results of our procedures indicated that, in all significant respects, the Waverly 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 finding further discussed later in this report:

Finding – Failure To Properly Fund Member Accounts

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 Waverly 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor
Auditor General
January 27, 2023

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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 Waverly 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 Waverly Township Non-Uniformed Cash Balance Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 154a, effective February 8, 2021, and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. Prior to February 8, 2021, the plan was locally controlled by the provisions of Ordinance No. 145, as amended, and an agreement also adopted pursuant to Act 15. The plan was established January 1, 2015. Effective February 8, 2021, active members are required to contribute one (1.0) percent of compensation to the plan and an optional amount not to exceed 19 percent of compensation. The municipality is required to contribute five (5.0) percent of compensation. Prior to February 8, 2021, active members were required to contribute one (1.0) percent of compensation to the plan and an optional amount not to exceed 19 percent of compensation and the municipality was required to contribute one (1.0) percent of compensation, and 100 percent match of optional members' contributions with a four (4.0) percent maximum. As of December 31, 2021, the plan had two active members.

WAVERLY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Member Accounts

Condition: The township did not fully fund the account of a member during, as illustrated below:

2018 Employee	Required Contributions	Actual Contributions	Contribution Due
1	\$ 1,828	\$ 1,670	\$ 158

Criteria: Section 9.1 of plan’s governing document states:

- (a) The Municipality shall contribute:
 - (i) 1% of each Member’s Compensation...and,
 - (ii) 100% match of optional contributions, provided however, that the maximum Municipal contribution for this subsection shall not exceed 4% of a Member’s Compensation

Cause: Due to an oversight, the member contribution rate for 2018 was incorrectly applied for the first and second quarter and although the member’s contributions were withheld, they were not reported to the plan’s custodian. In addition, the township’s internal control procedures were not adequate to timely identify and correct the error.

Effect: The failure to properly fund members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Furthermore, due to the township’s failure to properly fund the account of the member during 2018, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the outstanding contributions, \$316 (*employee contributions of \$158 plus the required employer match \$158*), due to the member’s account for the year 2018, with interest. A copy of the interest calculations should 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 in accordance with the plan document.

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

Auditor’s Conclusion: Compliance will be determined during the next audit.

WAVERLY 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	\$ -	\$ -	\$ -	\$ -	0.00%
2015	2,593	2,594	(1)	51,471	5.04%
2016	2,697	2,697	-	53,540	5.04%
2017	2,284	2,303	(19)	79,094	2.91%
2018	4,625	4,642	(17)	94,861	4.89%
2019	4,917	4,917	-	97,540	5.04%
2020	5,692	5,692	-	113,043	5.04%
2021	5,985	5,985	-		

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

*** Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

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

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Eric Parry
Chairman, Board of Township Supervisors

Ms. Christine A. Capozzi
Township Manager

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.