

# COMPLIANCE AUDIT

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## Rush Township Non-Uniformed Defined Benefit Pension Plan

Centre County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2020

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June 2021



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  
Rush Township  
Centre County  
Philipsburg, PA 16866

We have conducted a compliance audit of the Rush Township Non-Uniformed Defined Benefit Pension Plan for the period January 1, 2017 to December 31, 2020. 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 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 determined that there were no benefit calculations prepared for the years covered by our audit period.
- 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.

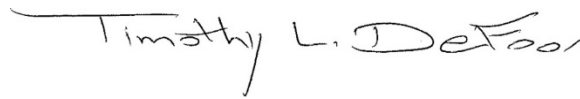
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Rush Township Non-Uniformed Defined Benefit Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 Rush Township Non-Uniformed Defined Benefit 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 – Untimely Deposit Of State Aid
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 3 – Failure To Fully/Timely Pay The Minimum Municipal Obligation Of The Plan

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 50.6% as of January 1, 2019, which is the most recent data available. We encourage township officials to monitor the funding of its defined benefit pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Rush 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 long horizontal line extending to the left of the first letter.

Timothy L. DeFoor  
Auditor General

May 12, 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 Rush Township Non-Uniformed Defined Benefit 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.

The Rush Township Non-Uniformed Defined Benefit Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2017-I. The plan was established January 1, 2017. Active members are required to contribute 5 percent of salary to the plan. As of December 31, 2020, the plan had two active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2020 state aid allocation into a pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2020 state aid allocation of \$4,924 on September 29, 2020; however, according to municipal records, the township did not deposit the state aid into its pension plans until January 20, 2021 (*for the defined contribution plan*) and February 2, 2021 (*for the defined benefit plan*), respectively. In addition, state aid allocations received during the years 2018 and 2019 were not deposited into its pension plans until December 4, 2018 and December 20, 2019, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: The township lacked adequate internal control procedures to ensure the timely deposit of its full annual allocations of state aid in accordance with Act 205. In addition, for 2020, state aid was not deposited timely into the municipality’s pension plans due to clerical oversight by plan officials.

Effect: Although state aid was eventually deposited into the plan based on records provided by the township, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, on the 2020 state allocation. 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 plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The township failed to certify 2 eligible non-uniformed defined benefit employees (2 units) and understated payroll by \$69,303 and \$74,626 on the Certification Form AG 385s filed in 2018 and 2020. The data contained on these certification forms is based on prior calendar year information. For the forms filed in 2018 and 2020, the township only certified 1 employee each year rather than the total of 3 they should have certified for each of those years.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: The township lacked adequate oversight procedures to ensure the accuracy of the data certified.

Effect: 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 plans.

The township's state aid for 2018 was based on the plan's unit value in the amount of \$4,684 (one unit at \$4,684). However, based on the corrected information, the township was entitled to an allocation based on pension costs in the amount of \$8,615. Therefore, the township received an underpayment of state aid in the amount of \$3,931 in 2018. In addition, the township's state aid for 2020 was also based on the plan's unit value in the amount of \$4,923 (one unit at \$4,923). However, based on the corrected information, the township was entitled to an allocation based on pension costs in the amount of \$11,358. Therefore the township received an underpayment of state aid in the amount of \$6,435 in 2020.

Although the township will be reimbursed for the total underpayment of state aid due to the township's certification errors, the full amount of the 2018 and 2020 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having someone other than the person who prepared the Certification Form AG 385 review the data prior to submission of the form to ensure compliance with the instructions that accompany the form.

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.



RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure To Fully/Timely Pay The Minimum Municipal Obligation Of The Plan**

Condition: The township did not fully pay the minimum municipal obligation (MMO) of the non-uniformed defined benefit pension plan for the year 2017, as required by Act 205. Plan officials calculated the 2017 MMO in the amount of \$6,130 but only deposited \$5,856 into the plan in October 2017, resulting in an unpaid MMO balance of \$274 for 2017.

In addition, the township did not timely pay the 2020 MMO due the defined benefit plan as required by Act 205. According to records provided by the township, the 2020 MMO due in the amount of \$8,725 was not deposited into the pension plan until February 2, 2021. However, we were unable to verify the deposit as statements from the custodian were unavailable at the time of the engagement.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

Annually the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Municipal officials failed to properly reconcile the 2017 MMO due with amounts actually deposited into the plan during 2017. In addition, for 2020, there was an oversight by plan officials in the preparation and payment of the plan’s MMO prior to December 31, and the officials failed to make the timely payment into the pension plan.

Effect: The failure to fully and timely pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the township’s failure to fully pay the 2017 MMO by the December 31, deadline, the township must add the remaining 2017 MMO balance due to the current year’s MMO and include interest, as required by Act 205. Additionally, the township will need to add the interest due for the late payment of the 2020 MMO to the current year’s MMO.

Recommendation: We recommend that the township pay the outstanding MMO due to the non-uniformed pension plan for the year 2017 with interest, as well as the interest due on the late deposit of the plan’s 2020 MMO in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan. Further, plan officials shall obtain custodial account documentation to support the payment of the 2020 MMO and retain for subsequent audit examination.

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.

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ -	\$ 23,626	\$ 23,626	0.0%
01-01-19	22,711	44,859	22,148	50.6%

The Department typically presents this data as of the plan’s actuarial valuation dates for the past six consecutive fiscal years. Since six years of data was not yet available, this will be done prospectively.

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2017	\$ 6,130	95.5%
2018	7,740	100.0%
2019	7,970	100.0%
2020	8,725	0.0%*

\* As disclosed in Finding No. 3, based on records provided by plan officials, the township did not pay its 2020 MMO until February 2021. However, we were unable to confirm the date of payment as statements were unavailable at the time of the audit.

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data was not yet available, this will be done prospectively.

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%

RUSH TOWNSHIP NON-UNIFORMED DEFINED BENEFIT PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Pat Romano**  
Chairman, Board of Township Supervisors

**Ms. Joan Cowher**  
Township Secretary

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).