

COMPLIANCE AUDIT

Woodward Township Non-Uniformed Pension Plan Clinton County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

December 2014



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Woodward Township
Clinton County
Lock Haven, PA 17745

We have conducted a compliance audit of the Woodward Township Non-Uniformed Pension Plan for the period January 1, 2011 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 audit 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The Woodward 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 Woodward Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials 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.

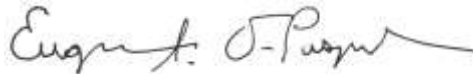
The results of our tests indicated that, in all significant respects, the Woodward Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings 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 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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

November 26, 2014



EUGENE A. DEPASQUALE
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Woodward Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission 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 Woodward Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2002-12-16-A, adopted pursuant to Act 15. The plan was established January 1, 1990. Active members are not required to contribute, but may voluntarily contribute up to 10 percent of compensation to the plan. The municipality is required to contribute 6 percent of each member's compensation. As of December 31, 2013, the plan had 3 active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree receiving pension benefits.

WOODWARD TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Woodward Township has complied with the prior audit recommendation concerning the following:

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

During the current audit period, the township returned \$407 to the Commonwealth for the excess state aid received in 2010.

Partial Compliance With Prior Audit Recommendation

Woodward Township has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the township returned \$2,792 to the Commonwealth for the excess state aid received in the year 2009; however, plan officials failed to reconcile the township's annual state aid allocations and available forfeitures with the plan's annual pension costs during 2011 and 2012 resulting in excess state aid received by the township as further discussed in Finding No. 1 contained in this report.

WOODWARD 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, although the township partially complied with the prior audit recommendation by returning excess state aid received in 2009, a similar condition occurred during the current audit period. Plan officials failed to reconcile the township’s annual state aid allocations and available forfeitures with the plan’s annual pension costs for the years 2011 and 2012, as illustrated below:

	<u>2011</u>	<u>2012</u>
Actual municipal pension costs	\$ 3,661	\$ 3,355
Forfeitures applied	<u>(3,661)</u>	<u>(1,214)</u>
Adjusted municipal pension costs	<u>\$ -</u>	<u>\$ 2,141</u>
State aid allocated	\$ 4,749	\$ 3,155
Adjusted municipal pension costs	<u>-</u>	<u>(2,141)</u>
Excess state aid	<u>\$ 4,749</u>	<u>\$ 1,014</u>

The township received a total of \$5,763 in excess state aid during the current audit period; however, township officials returned \$2,510 of this amount to the Commonwealth during 2013 leaving an outstanding balance of excess state aid in the amount of \$3,253. In addition, the township also contributed an additional \$199 from its general fund in 2012 which was in excess of pension costs required to fund the plan as shown on the Schedule of Deposited State Aid and Employer Contributions on Page 7.

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.

WOODWARD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Additionally, Section 14 of the separately executed plan agreement between the township and PMRS states in part;

In the event a member's service with the township is terminated for any reason whatsoever before the funds set aside for such member are vested...then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due the township for the remaining or future members of the plan.

Cause: Plan officials failed to adopt adequate internal control procedures to reconcile the township's annual state aid allocations and available plan forfeitures with the plan's annual pension costs to ensure compliance with the prior audit recommendation.

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 received in one year to offset pension costs received in other years. Consequently, the remaining overpayments of state aid received in the years 2011 and 2012 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the remaining excess state aid of \$3,253 received in the years 2011 and 2012 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, 320 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 and any available plan forfeitures with the plan's 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 Conclusion: Compliance will be subject to verification through our next audit.

WOODWARD TOWNSHIP NON-UNIFORMED 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 an eligible non-uniformed employee (1 unit) and understated payroll by \$16,671 on the Certification Form AG 385 filed in 2014. The employee was hired on January 1, 2013 and became eligible for participation in the non-uniformed pension plan effective April 7, 2013. The data contained on this certification form is based on prior calendar year information.

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: Plan officials failed to establish adequate internal control procedures to ensure that all newly eligible employees are properly added to the pension plan. Plan officials discovered the oversight and added the new employee to the pension plan in November 2014, with a retroactive membership date of April 7, 2013 and additionally, made retroactive township contributions for this member from the April 7, 2013 participation date.

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 of \$1,000 as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2014	6.0%	\$ 16,671	\$ 1,000

Although the township will be reimbursed for the underpayment of state aid due to the township's certification error, the full amount of the 2014 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 to ensure that all newly eligible employees are properly entered into the township's pension plan in a timely manner.

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

Auditor Conclusion: Compliance will be subject to verification through our next audit.

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

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of \$3,253. 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, 320 Finance Building, Harrisburg, PA 17120.

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

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 5,701	\$ 534
2009	4,354	398
2010	3,205	1,904
2011	3,661	None
2012	3,155	\$ 199
2013	None	260

Note: As disclosed in Finding No. 1 contained in this report, in 2011, the township met the plan's \$3,661 funding requirement through the deposit of \$3,661 in state aid, even though the plan had a terminated employee's forfeiture account balance of \$4,875, which was not appropriately applied before utilizing state aid. In 2012, the township met the plan's \$3,355 funding requirement through the deposit of \$3,155 in state aid and municipal contributions amounting to \$199, even though forfeitures amounting to \$1,214 remained from the available forfeiture account balance as illustrated on Page 3 of this report.

WOODWARD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Woodward Township Non-Uniformed Pension Plan
Clinton County
86 Riverside Terrace
Lock Haven, PA 17745

Mr. Clyde Glossner	Chairman, Board of Township Supervisors
Ms. Jackie Bartlett	Secretary
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.