

COMPLIANCE AUDIT

East Coventry Township Non-Uniformed Cash Balance Pension Plan

Chester County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2021

September 2022



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
East Coventry Township
Chester County
Pottstown, PA 19465

We have conducted a compliance audit of the East Coventry Township Non-Uniformed Cash Balance Pension Plan for the period January 1, 2017 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding 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 finding 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 \$9,785, \$12,063, \$21,224, \$24,329 and \$24,162 for the years 2017, 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, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 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 East Coventry 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 East Coventry 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 objectives.

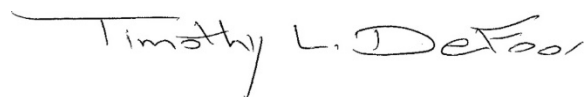
The results of our procedures indicated that, in all significant respects, the East Coventry Township Non-Uniformed Cash Balance Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding No. 1 – Inadequate Accounting/Recording Over Activity Of The Pension Plan

Finding No. 2 – 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 East Coventry Township and, where appropriate, their responses have been included in the report.



Timothy L. DeFoor
Auditor General
August 18, 2022

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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 East Coventry 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 East Coventry Township Non-Uniformed Cash Balance Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2020-242 effective April 1, 2020, and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. Prior to April 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 202 and a plan agreement adopted pursuant to Act 15. The plan was established January 1, 1985. Active members are required to contribute 5 percent of compensation to the plan with an optional rate not to exceed 15 percent. The municipality is required to contribute five (5.0) percent of compensation. As of December 31, 2021, the plan had six active members.

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

East Coventry Township has complied with the prior recommendation concerning the following:

- Incorrect Data On Certification Form AG385 Resulting In An Overpayment Of State Aid

During the current audit period, the township reimbursed the overpayment of 2016 state aid with interest to the Commonwealth and complied with the instructions accompanying Form AG 385 and accurately reported the required pension data.

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Condition: The municipality's accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2021. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

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 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. Additionally, municipal officials indicated that the plan's custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2021.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan's financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting 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. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2021 to ensure the accuracy and propriety of the transaction activity.

Management's Response: The following response was provided by the township:

We are being given a finding by the Auditor General with our PMRS pension plan audit not because we have done anything wrong but because we cannot give our 2021 reports to the auditor because PMRS has not issued them yet.

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Ultimately, I was told that even though we have complied and given all the information that will be in that report and there is no other information I can give them, the mere fact that we do not have the report is a condition for a finding since we have the fiduciary responsibility for the plan. Since the Auditor General does not have the authority to audit the plan custodian (PMRS), the finding is given to us. I want to make it clear that I have given substantial information and all information that will appear in that report but it does not matter. The report is what is needed is what I am told. You have all of the information. All of it.

This is not acceptable and our only alternative is to switch our plan custodian from PMRS to another source which is costly and timely for us. We have contracted with PMRS for the plan(s) to be our custodian and PMRS has not lived up to their end of the agreement with constant delays and promises to do better. I understand that PMRS has a new computer and accounting system and the pandemic has impacted PMRS but it has impacted everyone and I had all the documentation required for our audit but could not supply the one thing we expect from PMRS and that is to timely supply us with the information and reports that we need to comply as the fiduciary for the plan.

I am very displeased that we are being given a finding for something that we have no control over, short of moving our plans to another custodian. I have done everything to comply with this audit and given every piece of information requested. I do not believe this should be a finding at all and am in complete disagreement.

Auditor's Conclusion: As aforementioned earlier in this report, the department's authority to audit every municipality which receives general municipal pension system state aid is derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)). The department does not have the authority to audit the plan custodians. And as indicated in the Criteria above, 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. It was noted that the plan custodian recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. In addition, the custodian has taken active measures to resolve these issues and anticipates completion of the 2020 financial reporting this summer and 2021 financial reports to be distributed before the end of 2022. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Properly Fund Member Accounts

Condition: The township failed to properly fund members’ accounts during 2018. Although the township forwarded required contribution amounts for plan members in accordance with the plan document to the plan’s custodian; contributions were not allocated properly to the individual accounts of three members during 2018, as illustrated below:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 3,207	\$ 3,148	\$ 59
2	2,989	3,171	(182)
3	3,338	3,215	123
		Total	<u>\$ -</u>

Criteria: Section 9.1(b) of the separately executed plan agreement, adopted pursuant to Ordinance No. 202, states, in part:

For Members hired on or after September 1, 2014, the Municipality shall contribute five percent (5.0%) of each Member’s Compensation.

Cause: Although the township provided the plan’s custodian with the correct municipal contribution amounts for each member, the township lacked adequate internal control procedures to ensure that contributions were properly allocated to plan members’ accounts during 2018.

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits or receiving benefits in excess of entitlement in accordance with the plan’s governing document.

Recommendation: We recommend that the township contact the custodian to correct the improper allocation of municipal contributions to the three affected members for 2018.

We also recommend that, in the future, township officials implement procedures to review the accounts of all eligible plan members to ensure that correct amounts are being allocated to each member’s account accordingly, in accordance with the plan document.

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: The township provided the following response:

We do not agree with the finding. The Auditor General has been in contact with PMRS and understands their recent upgrades in computer and accounting systems and their constraints due to ongoing related issues. We realize that ultimately the burden falls on us to review these items but the necessary documents and reports were not even available to us to do this. PMRS is getting caught up and has promised to get back on track (and we do see that happening) but in the meantime there remains a short backlog on PMRS part and timely filing is still not current. We did, for our part, send the correct information to them as proven by information given during our audit.

Auditor's Conclusion: The department acknowledges the township's disagreement; however, contrary to the management response, custodial statements and reports were readily available for inspection for 2018, as provided by the custodian and maintained in the files and records of the municipality. As such, the issue remains as stated. Compliance will be evaluated during our next audit of the plan.

EAST COVENTRY 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	\$ 712	\$ 711	\$ 1	\$ 53,919	1.32%
2015	5,890	5,910	(20)	116,597	5.07%
2016	8,535	8,535	-	169,897	5.02%
2017	9,846	9,865	(19)	195,707	5.04%
2018	12,123	9,311	2,812	241,273	3.86%
2019	21,324	21,324	-	424,478	5.02%
2020	24,468	24,469	1	486,572	5.03%
2021	24,162	24,432	(270)		

* 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 PMRS. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account. For 2018, the township contributed the outstanding SRC amount during March 2019.

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

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Ray Kolb
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Mr. W. Atlee Rinehart
Vice Chairman, Board of Township Supervisors

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

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