

COMPLIANCE AUDIT

Greenfield Township Non-Uniformed Pension Plan Lackawanna County, Pennsylvania For the Period January 1, 2020 to December 31, 2023

January 2025



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
Greenfield Township
Lackawanna County
Greenfield Township, PA 18407

We have conducted a compliance audit of the Greenfield Township Non-Uniformed Pension Plan for the period January 1, 2020 to December 31, 2023. 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 objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior reports of both the Greenfield Township Non-Uniformed Pension Plan and the former Greenfield Township Police Pension Plan; and
2. To determine if the non-uniformed 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 findings contained in our prior non-uniformed and former police pension plan reports, 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 non-uniformed 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipient.
- We determined whether the January 1, 2019, January 1, 2021, and January 1, 2023, actuarial valuation reports were prepared and submitted by March 31, 2020, 2022, and 2024, 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 Greenfield 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 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 Greenfield Township Non-Uniformed 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 Greenfield 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 finding further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement

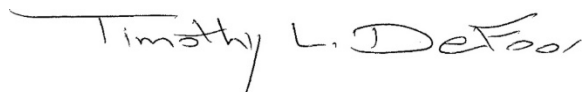
In addition, we are repeating a finding which was reported in our prior audit report of the former Greenfield Township Police Pension Plan that has not been corrected by township officials, as follows:

Finding No. 2 – Noncompliance With Prior Recommendation – Failure To Properly Dispose Of Life Insurance Policy (Former Police Pension Plan)

The findings contained in this audit report repeat conditions that were cited in our previous reports that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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 Greenfield 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.



Timothy L. DeFoor
Auditor General
December 2, 2024

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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 two 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 Greenfield Township Non-Uniformed 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.

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 Greenfield Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 02-04-2020, and a separately executed plan agreement with the plan's custodian effective January 1, 2020, adopted pursuant to Act 15. The plan was established April 1, 2006. Active members are not required to contribute to the plan; however, members may optionally contribute up to ten percent of compensation. The municipality is required to contribute \$750 per member per calendar quarter. As of December 31, 2023, the plan had two active members and one terminated member eligible for vested benefits in the future.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Greenfield Township has complied with the prior recommendation concerning the following:

- Failure To Maintain An Adequate Record-Keeping System To Effectively Monitor Activity Of The Pension Plan

The township provided annual financial statements of transactions of the custodial account of the pension plan for all years under audit.

Noncompliance With Prior Recommendations

Greenfield Township has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Receipt Of State Aid In Excess Of Entitlement

In addition, Greenfield Township has not complied with the prior recommendation reported in our prior audit report of the former Greenfield Township Police Pension Plan as further discussed in the Findings and Recommendations section of this report:

- Failure To Properly Dispose Of Life Insurance Policy

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: The finding contained in the prior report disclosed that the township failed to reconcile the amount of state aid received with the non-uniformed pension plan’s actual pension costs in the years 2017 and 2019 and recommended that the township return the \$1,652 of excess state aid received in the years 2017 and 2019, plus interest, to the Commonwealth from the township’s general fund (\$1,453 in 2017 and \$199 in 2019). The finding also recommended that the township calculate interest for the excess state aid received during 2013 through 2016 and previously returned to the Commonwealth, at a rate earned by the plan and calculated through the date of the repayment and include such interest repayment in the aforementioned reimbursement to the Commonwealth.

The township has not returned the excess state received in the years 2017 and 2019 to the Commonwealth or the interest on the excess state aid received during 2013 through 2016.

During the current audit period, the township also failed to reconcile the amount of state aid received with the plan’s actual pension costs in the years 2021, 2022, and 2023, and reimburse the excess state aid received to the Commonwealth, as illustrated below:

	<u>2021</u>	<u>2022</u>	<u>2023</u>
State aid allocation	\$ 7,404	\$ 6,233	\$ 5,442
Actual municipal pension costs	6,080	5,171	5,310
Excess state aid	\$ 1,324	\$ 1,062	\$ 132

In addition, it was noted that the excess state aid amounts remained in the general fund as of the audit fieldwork completion date.

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.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials again failed to establish adequate internal control procedures to annually reconcile the township’s state aid allocation with the plan’s actual pension costs and to ensure compliance with this department’s prior 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 in one year to offset pension costs in other years. Consequently, the total excess state aid received in the years 2017, 2019, 2021, 2022, and 2023 must be returned to the Commonwealth for redistribution.

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

Recommendation: We recommend that the municipality return the excess state aid received in the years 2017, 2019, 2021, 2022, and 2023 in the total amount of \$4,170 to the Commonwealth from the township’s general fund. 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.

We also again recommend that the municipality calculate interest for the excess state aid received during 2013 through 2016, as recommended previously in the prior audit, at a rate earned by the plan and calculated through the date of the repayment and include such interest repayment in the aforementioned reimbursement to the Commonwealth.

Furthermore, we again recommend that, in the future, plan officials reconcile the township’s annual state aid allocation with the plan’s annual pension costs and reimburse any excess state aid received to the Commonwealth.

Management Response: Municipal officials agreed with the finding without exception and indicated that going forward, the township will reconcile the township’s state aid allocation with the plan’s actual pension costs and return any overpayments of state aid received.

Auditor Conclusion: 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.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Recommendation – Failure To Properly Dispose Of Life Insurance Policy (Former Police Plan)

The ordinance that authorized the creation of the police pension plan was rescinded by Ordinance No. 11-10-2020 and the Department issued the final audit report of the former police pension plan for the period January 1, 2016 to November 10, 2020, indicating that compliance with the finding in that audit report would be evaluated during our next audit of the non-uniformed pension plan.

Condition: As initially disclosed in our audit report of the former police pension plan for the period January 1, 2006 to December 31, 2008, the township’s last active police officer was granted a pension benefit in April 2003, pursuant to the township’s fully insured defined benefit pension plan. The township surrendered two insurance policies to fund the pension benefits due the retiree. However, an additional life insurance policy, which was owned by the township and purchased previously with pension plan funds, had not been properly disposed of by the township upon retirement of the individual. That audit report and subsequent audit reports of the police pension plan recommended that the township surrender the life insurance policy and deposit the proceeds into a pension plan account, however, the township did not surrender the policy and when the insured retiree died in 2019, proceeds from the policy in the amount of \$86,655 were disbursed to the beneficiary of the retiree on November 7, 2019.

The finding in the final audit report of the former police pension plan stated that the township’s failure to properly dispose of the life insurance policy resulted in the retiree’s beneficiary receiving a benefit which was not authorized under Act 205 and/or the plan’s governing document. Since the premiums paid for the life insurance policy were funded with pension plan assets comprised primarily of state aid, and since the distribution to the beneficiary represented death benefits and not periodic retirement benefits, state aid was not used for its intended purpose under Act 205. Based on available pension plan records, it was determined that life insurance premiums totaling \$31,225 were paid on the policy from the pension plan representing state aid since enactment of Act 205. The prior finding recommended that the township reimburse \$31,225, plus interest compounded annually from the date the individual retired, April 30, 2003, to the date of repayment, to the Commonwealth.

Criteria: Act 205 at Section 102 states, in part:

“Fully insured pension plan.” A pension plan for which an insurance carrier has, or a number of insurance carriers have, underwritten the total actuarial accrued liability of the benefit plan.

Pursuant to this funding arrangement, the insurance policies purchased and maintained on each active member are to be used to provide pension benefits.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, the Department of the Auditor General previously issued several bulletins providing guidance regarding the life insurance purchases by municipal pension plans. In 1985, Auditor General Municipal Pension Bulletin No. 2-85, “Purchase of Life Insurance for Municipal Pension Plans,” was issued. This bulletin disallowed any further purchase of life insurance with pension funds after January 1, 1986, but did allow the continuance of existing policies. Subsequently, in 1988, Auditor General Municipal Pension Bulletin No. 6-88, “Purchase of Insurance Coverage,” was issued and restated this position, by stating, in part:

Because the primary purpose of these policies is to fund death benefits rather than periodic retirement benefits, general municipal pension system state aid cannot be used to pay life insurance.

Furthermore, Bulletin No. 6-88 states, in part:

To avoid the losses which might be sustained by municipal pension plans that previously invested in life insurance policies, we will not object to the continued payment of premiums for existing policies which were previously authorized (i.e. grandfathering). However, we would recommend cash surrender of such policies or conversion to annuities at the time when the optimum return is available. As an alternative, the municipality could transfer existing life insurance policies from the pension plan to a municipal general fund provided the pension plan is adequately compensated.

Cause: Despite multiple recommendations from this Department, Greenfield Township Supervisors continue to maintain that it was the township’s intent to honor the request of the retired police officer, at the time of his retirement, to maintain the life insurance policy with the payment to be made to his beneficiary upon his death.

Effect: As stated in the Condition above, state aid was not used for its intended purpose under Act 205. Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We again recommend that the township reimburse \$31,225, plus interest compounded annually from the date the individual retired, April 30, 2003, to the date of repayment, to the Commonwealth. A check in this amount 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 evidence of payment.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: At our exit conference held on November 6, 2024, municipal officials disagreed with the recommendation and indicated that they would provide a written response to this finding within ten days by the township's solicitor after their meeting on November 12, 2024. However, as of the date of this report, no such response has been provided.

Auditor's Conclusion: This finding repeats a condition that was cited in our previous four audit reports of the former police pension plan that has not been corrected by township officials. A written response was requested regarding the township's intended action relative to this issue, however, no response was received. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted above.

GREENFIELD 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 \$4,170, plus interest, and Finding No. 2 cites a repayment to the Commonwealth in the amount of \$31,225, plus interest. Conditions of repeat findings of this nature may lead to a total withholding of state aid in the future unless those findings are corrected. A check in the total amount with interest 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.

GREENFIELD TOWNSHIP NON-UNIFORMED 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	\$ 6,060	\$ 4,560	\$ 1,500	\$ 122,136	3.73%
2015	6,810	6,810	-	93,703	7.27%
2016	6,060	6,060	-	101,952	5.94%
2017	6,060	6,060	-	99,251	6.11%
2018	9,060	6,830	2,230	138,668	4.93%
2019	7,955	8,008	(53)	130,976	6.11%
2020	6,080	6,080	-	114,072	5.33%
2021	6,080	6,080	-	118,495	5.13%
2022	5,171	5,171	-	103,454	5.00%
2023	5,310	5,310	-	96,882	5.48%

* 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 Statutorily Required Contribution 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.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Ms. Susanne Cerra-Totsky
Chairwoman, Board of Township Supervisors

Mr. Michael Mancuso
Treasurer

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.