

COMPLIANCE AUDIT

Somerset Township Non-Uniformed Employees' Pension Plan Washington County, Pennsylvania

November 2025



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Somerset Township
Washington County
Eighty Four, PA 15330

We have conducted a compliance audit of the Somerset Township Non-Uniformed Employees' Pension Plan 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 whether 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 area 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:

- For the period January 1, 2020 to December 31, 2024, 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2019 to December 31, 2024, are presented on the Summary of Deposited State Aid and Employer Contributions.

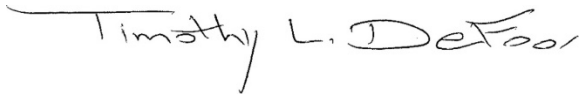
- For the period January 1, 2020 to December 31, 2024, we determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements 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, 2019 to December 31, 2024, are presented on the Summary of Deposited State Aid and Employer Contributions.
- For the period January 1, 2023 to December 31, 2024, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2024 to December 31, 2024, and through the completion of our fieldwork procedures, we determined whether retirement benefits calculated for plan members who retired and received a lump-sum distribution during the period noted 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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 Somerset Township Non-Uniformed Employees' 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 Somerset Township Non-Uniformed Employees' Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

Finding – Improper In-Service Distribution Provision Contained In The
Plan's Adoption Agreement

The contents of this report were discussed with officials of Somerset 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 from the start of the word "Timothy".

Timothy L. DeFoor
Auditor General
September 30, 2025

CONTENTS

	<u>Page</u>
Background	1
Finding and Recommendation:	
Finding – Improper In-Service Distribution Provision Contained In The Plan’s Adoption Agreement	2
Summary of Deposited State Aid and Employer Contributions	4
Report Distribution List	5

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 Somerset Township Non-Uniformed Employees' 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 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 Somerset Township Non-Uniformed Employees' Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 8 of 2009, as amended, and a separately executed plan agreement. The plan was established January 1, 1990. Active members are not required to contribute to the plan. The municipality is required to contribute nine percent of compensation. As of December 31, 2024, the plan had seven active members, two terminated members eligible for vested benefits in the future, and one retiree receiving pension benefits.

SOMERSET TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper In-Service Distribution Provision Contained In The Plan's Adoption Agreement

Condition: The township adopted a revised plan adoption agreement by a Resolution of the Board of Directors of Somerset Township dated June 19, 2025 which stated, "...the following resolutions to amend and restate the Somerset Township Non-Uniform Employees' Pension Plan (the Plan) were duly adopted by unanimous consent in lieu of a meeting of the Board of Directors of Somerset Township...". The new plan agreement contains an improper provision allowing for in-service distributions to plan members upon reaching age 59½. In addition, the amendment to the plan's benefit provisions was made without the approval of the township auditors.

Criteria: Section 102 of Act 205 contains the following definitions:

"Pension plan or system." The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

"Defined contribution pension plan." A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not for in-service distributions to be made to active plan members.

In addition, when township supervisors are employed by the township in an employee capacity and participate in the municipal pension plan, the township must follow Section 606 of Act 69 (the Second Class Township Code) when amending plan provisions.

Section 606(b)(3) of Act 69 states:

No change in the nature or rate of the contributions of a defined contribution plan and no change in the benefit formula of a defined benefit plan shall be initiated by the board of supervisors with respect to a supervisor-employee without auditor approval.

Cause: Due to recent turnover in personnel responsible for the administration of the plan, current plan officials were unaware of the applicable provisions regarding the amendment of pension plan benefit provisions and were also unaware that in-service distributions to active plan members are not allowed by Act 205.

SOMERSET TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The in-service distribution provision violates the intent of Act 205 to only provide distributions to plan members upon their retirement or termination of employment with the municipality and could result in unauthorized pension benefits being paid from plan assets.

Recommendation: We recommend that municipal officials take appropriate action to eliminate the improper in-service distribution provision from the plan's governing document. In addition, we recommend that the express approval of the board of auditors be obtained for all amendments to the plan's benefit provisions.

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.

SOMERSET TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS
(UNAUDITED)

Year Ended December 31	State Aid	Employer Contributions
2019	\$ 32,939	None
2020	34,467	\$ 956
2021	33,581	304
2022	32,791	None
2023	35,385	None
2024	41,309	None

SOMERSET TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Mark J. Lohr
Chairman, Board of Township Supervisors

Ms. Julie Ann Dotson
Secretary/Treasurer

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.