

COMPLIANCE AUDIT

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

April 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
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We have conducted a compliance audit of the Sullivan 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 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 findings 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.
- 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 retired and the plan members who separated employment and received a lump-sum distribution 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 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, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 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 Sullivan 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 Sullivan 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 Sullivan 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:

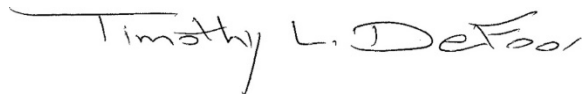
Finding No. 1 – Partial Compliance With Prior Recommendation – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation 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 Sullivan 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
February 4, 2025

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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 Sullivan 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 Sullivan Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2-20, and a separately executed plan agreement with the plan's custodian effective July 1, 2020, adopted pursuant to Act 15. Prior to July 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 11-2014, and a separately executed plan agreement with the plan's custodian effective July 1, 2014, also adopted pursuant to Act 15. The plan was established January 1, 1996. Active members are not required to contribute to the plan but may voluntarily contribute up to ten percent of their compensation. The municipality is required to contribute five percent of each member's compensation. As of December 31, 2023, the plan had four active members and six retirees receiving pension benefits.

SULLIVAN TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Sullivan Township has complied with the prior recommendations concerning the following:

- Failure To Maintain An Adequate Record-Keeping System To Ensure Effective Control Over Pension Plan Assets

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

- Failure To Implement Mandatory Provisions Of Act 205

The township adopted procedures for the procurement of professional services through the adoption of Resolution No. 10-2020.

Partial Compliance With Prior Recommendation

Sullivan Township has partially complied with the prior recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the township returned \$2,634 to the Commonwealth for the excess state aid received in the years 2016, 2017, and 2019, plus interest. However, plan officials again received state aid in excess of the non-uniformed pension plan's pension costs for full-time plan members in 2020 and 2021 as further discussed in Finding No. 1 in the Findings and Recommendations section of this report.

SULLIVAN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by returning excess state aid received in the years 2016, 2017, and 2019 to the Commonwealth. However, the township again received state aid in excess of the non-uniformed pension plan’s pension costs for full-time plan members in the years 2020 and 2021, as illustrated below:

	<u>2020</u>	<u>2021</u>
State aid allocation	\$ 6,609	\$ 5,337
Municipal pension costs for full-time plan members	<u>(4,721)</u>	<u>(3,108)</u>
Excess state aid	\$ 1,888	\$ 2,229
State aid to be returned pursuant to Finding No. 2	<u>-</u>	<u>739</u>
Remaining excess state aid	<u><u>\$ 1,888</u></u>	<u><u>\$ 1,490</u></u>

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.

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

SULLIVAN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

Cause: Township officials again failed to establish adequate internal control procedures to reconcile the township’s annual state aid allocations with the plan’s actual pension costs attributable to full-time plan members. In addition, due a turnover in the position appointed as the chief administrative officer of the pension plan, current township officials indicated they were not aware of prior pension procedures or practical compliance with prior recommendations.

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 excess state aid received in the years 2020 and 2021 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: In addition to the excess state aid identified in Finding No. 2, we recommend that the township return the \$3,378 of excess state aid received in the years 2020 and 2021 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, 321 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, township officials reconcile the amount of state aid allocated to the township and any available employee forfeitures with the plan’s annual pension costs attributable to full-time members and reimburse any excess state aid received to the Commonwealth.

SULLIVAN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Auditor’s 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.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The township certified an ineligible part-time non-uniformed employee and related payroll of \$14,780, \$16,080, and \$16,602 on the Certification Forms AG 385 filed in 2021, 2022, and 2024, respectively. In addition, the township failed to certify an eligible non-uniformed employee and understated payroll by \$30,787 on the Certification Form AG 385 filed in 2022. The data contained on these certification forms is based on prior calendar year information.

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

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Due to turnover in personnel responsible for the administration of the plan, current plan officials did not have a thorough understanding of the Certification Form AG 385 instructions or the limitations on earnings eligible for certification purposes. In addition, 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 plan. Because the township’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

SULLIVAN TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2021	5.0%	\$ 14,780	\$ 739
2022	5.0%	\$ 16,080	\$ 804
	5.0%	(30,787)	(1,539)
		Total	<u>\$ (735)</u>
2024	5.0%	\$ 16,602	<u>830</u>
		Net Overpayment of State Aid	<u><u>\$ 834</u></u>

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO(s) will not be fully paid.

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$834, plus interest, be returned 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 pension plan, 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 the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor’s 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.

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

Finding Nos. 1 and 2 contained in this audit report cite overpayments of state aid to the township in the total amount of \$4,212, plus interest. Conditions of this nature may lead to a total withholding of state aid in the future unless those findings are 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, 321 Finance Building, Harrisburg, PA 17120.

SULLIVAN 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	\$ 8,592	\$ 8,593	\$ (1)	\$ 164,852	5.21%
2015	8,258	8,417	(159)	162,352	5.18%
2016	7,281	7,294	(13)	142,815	5.11%
2017	6,204	7,675	(1,471)	121,282	6.33%
2018	7,599	5,381	2,218	149,184	3.61%
2019	7,643	10,507	(2,864)	149,659	7.02%
2020	4,802	4,802	-	96,137	4.99%
2021	4,634	4,634	-	97,271	4.76%
2022	6,354	6,353	1	127,441	4.99%
2023	9,769	9,769	-	190,986	5.12%

* 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.

SULLIVAN 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

Mr. Andrew Tice
Chairman, Board of Township Supervisors

Ms. Debra I. Catellier
Secretary/Treasurer

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

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