

ARMAGH TOWNSHIP NONUNIFORMED PENSION PLAN

MIFFLIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Armagh Township Nonuniformed 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 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 Armagh Township Nonuniformed Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 1987-1, as amended. Active members are required to contribute 3 percent of compensation to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts.



Board of Township Supervisors
Armagh Township
Mifflin County
Milroy, PA 17063

We have conducted a compliance audit of the Armagh Township Nonuniformed Pension Plan for the period January 1, 2007, to December 31, 2009. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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. The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Armagh Township Nonuniformed 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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Armagh Township Nonuniformed 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 – Failure To Properly Fund Members' Accounts

Finding No. 2 – Improper Ownership Of An Allocated Insurance Contract

Finding No. 3 – Improper Distribution From Allocated Insurance Contract

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Armagh Township and, where appropriate, their responses have been included in the report.

June 28, 2010

JACK WAGNER
Auditor General

ARMAGH TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Armagh Township has complied with the prior audit recommendations concerning the following:

- Failure To Deposit The Full Amount Of State Aid Into Eligible Member's Account

The member referenced in the prior audit finding terminated his employment with the township and was 100 percent vested in his account. Therefore, municipal officials remitted an additional \$1,368 to the former plan member to comply with the prior audit recommendation; and

- Inconsistent Pension Benefits

The township amended the plan's governing document to reflect the benefit obligations of the plan through the adoption of Ordinance No. 1-2010.

ARMAGH TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Properly Fund Members’ Accounts

Condition: In 2008, the township did not properly fund plan members’ accounts, as illustrated below:

| <u>2008 Employees</u> | <u>Required Contributions</u> | <u>Actual Contributions</u> | <u>Contributions Excess/(Shortage)</u> |
|---------------------------|-----------------------------------|---------------------------------|--|
| 1 | \$ 2,883 | \$ 3,522 | \$ 639 |
| 2 | 2,606 | 3,245 | 639 |
| 3 | 3,239 | 4,378 | 1,139 |
| 4 | 3,026 | 1,109 | (1,917) |

In addition, for 2009, the township failed to deposit the township’s portion of required contributions (currently 2.5 percent of annual compensation) by December 31 as required by Act 205, until June 9, 2010.

Criteria: Section 6(c) of Ordinance 1987-1, states:

For new employees (those employed after the beginning of the plan), the township shall contribute from the general fund, the sum of \$500 for each such new employee on the first anniversary date (defined in Section 1 of the plan ordinance as the first day of each calendar year) following employment and for two consecutive years; thereafter, if the new employee shall continue in township employment so long.

In addition, all other members of the plan receive an equal share of the township’s annual state aid allocation and a contribution from the township of 2.5 percent of each member’s compensation to be paid from the township’s general fund.

Furthermore, Section 303(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

ARMAGH TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the members' accounts were funded properly in 2008. In addition, for 2009, there were not enough funds available in the township's general fund to timely pay the required municipal contribution.

Effect: One plan member was denied benefits to which he was entitled and the other 3 plan members were incorrectly allocated excess funds.

Recommendation: We recommend that the township, with the assistance of its solicitor, review the members' accounts and make any adjustments deemed necessary to ensure that they are properly funded for the year 2008.

We also recommend that township properly fund the members' accounts for 2009 in accordance with Section 303(e) of Act 205.

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

Finding No. 2 – Improper Ownership Of An Allocated Insurance Contract

Condition: The municipality is funding an allocated insurance contract that improperly designates an individual plan member as the owner of the contract.

Criteria: Since premiums for this contract have been paid with state aid and municipal funds, the municipality should maintain ownership of the insurance contract to properly safeguard these assets.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's assets were adequately safeguarded.

Effect: Continued improper ownership of the allocated insurance contract could result in premature withdrawals or other improper dispositions to plan members as disclosed in Finding No. 3 of this audit report.

Recommendation: We recommend that plan officials take the necessary steps to change the ownership of this allocated insurance contract from the plan member to the pension plan.

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

ARMAGH TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Improper Distribution From Allocated Insurance Contract

Condition: During 2007, a portion of the cash surrender value of an allocated insurance contract properly owned and held by the township's pension plan was improperly withdrawn and the proceeds, totaling \$2,870, were deposited into an allocated insurance contract improperly owned by an individual member of the pension plan as disclosed in the Finding No. 2 of this audit report.

Criteria: Since premiums for this contract have been paid with state aid and municipal funds, the municipality should not transfer funds from this contract to a contract that is not properly owned by the pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's assets were adequately safeguarded.

Effect: The transfer of funds to the allocated insurance contract which is owned by an individual plan member could result in premature withdrawals or other improper dispositions of these assets.

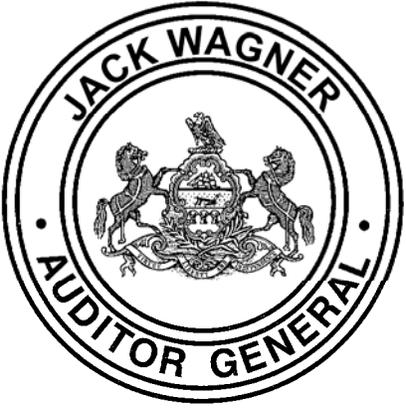
Recommendation: We recommend that plan officials establish and implement adequate internal control procedures to ensure that plan assets are adequately safeguarded.

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

ARMAGH TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid Deposited | Employer Contributions |
|------------------------|---------------------|------------------------|
| 2004 | \$ 5,520 | \$ 3,817 |
| 2005 | 5,470 | 2,881 |
| 2006 | 3,976 | 3,323 |
| 2007 | 4,450 | 2,934 |
| 2008 | 7,671 | 4,583 |
| 2009 | 10,976 | 3,315 |



ARMAGH TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Armagh Township Nonuniformed Pension Plan
Mifflin County
P.O. Box 396
224 College Avenue
Milroy, PA 17063

Mr. Glen R. Boyer Chairman, Board of Township Supervisors

Ms. Brenda E. Aumiller Township Secretary

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.