

# LIMITED PROCEDURES ENGAGEMENT

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## Armagh Township Non-Uniformed Pension Plan Mifflin County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

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April 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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We conducted a Limited Procedures Engagement (LPE) of the Armagh Township Non-Uniformed Pension Plan for the period January 1, 2013 to December 31, 2016 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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.
- Whether the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Armagh Township Non-Uniformed Pension Plan was not being 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 – Noncompliance With Prior Audit Recommendation – Improper Distribution To Active Employee Of Pension Plan
- Finding No. 2 – Failure To Properly Fund Members' Accounts
- Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

The contents of this report were discussed with officials of Armagh Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

March 22, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Improper Distribution To Active Employee Of Pension Plan

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Distribution  
To Active Employee Of Pension Plan**

Condition: As disclosed in our prior audit report, a portion of the cash surrender value of an allocated insurance contract funded by the non-uniformed pension plan was improperly withdrawn and the proceeds, totaling \$4,517, were distributed to an active member of the pension plan. During and subsequent to the current engagement period, an additional \$24,586 was cash surrendered and the proceeds were distributed to the active member.

Criteria: Section 10 of Ordinance No. 1987-1 states, in part:

However, no retirement benefits shall be paid until actual retirement and termination of employment by Township.

In addition, 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 and not to be used for distributions to active members of a pension plan prior to their retirement benefit eligibility.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure compliance with this department’s prior audit recommendation. Municipal officials indicated that the insurance company had previously notified the township that the active employee was to begin receiving distributions at seventy and one half years of age.

Effect: Distributions from allocated insurance contracts prior to retirement violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of an annuitant and undermines the integrity of the pension plan.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We again recommend that in the future, allocated insurance contracts should not be wholly or partially cash surrendered to active members of the pension plan prior to their retirement benefit eligibility.

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

Auditor’s Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

**Finding No. 2 – Failure To Properly Fund Members’ Accounts**

Condition: The township did not properly fund the accounts of four members in 2012, one member in 2013, and four members in 2017, as illustrated below:

2012:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
5/1/81	\$ 4,493	\$ 3,630	\$ 863
3/14/05	4,358	3,495	863
1/15/07	4,186	3,323	863
8/15/11	-	3,289	(3,289)
		Total	<u><u>\$ (700)</u></u>

2013:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
8/15/11	\$ 3,296	\$ 3,988	\$ (692)



ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

2017:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
5/1/81	\$ 3,215	\$ 3,447	\$ (232)
3/14/05	3,069	3,272	(203)
1/15/07	2,898	3,068	(170)
8/15/11	2,832	2,987	(155)
		Total	<u>\$ (760)</u>

Criteria: The plan’s governing document, Ordinance No. 1987-1, as amended, at Section 6(b) states:

Each year the Township shall contribute to each eligible employee’s account an equal share of the annual state aid allocation. To be eligible to receive the annual state aid allocation share, the employee shall be an eligible employee on the date of receipt by the Township of the state aid allocation.

Also, Section 6(c) of Ordinance No. 1987-1, as amended, states:

For new employees, the Township shall contribute from the General Fund the sum of five hundred (\$500) dollars for each such new employee on the first anniversary date following employment and on the anniversary date for two (2) consecutive years thereafter, if the new employee shall continue in township employment so long.

Additionally, Section 6(d) of Ordinance No. 1987-1, as amended, stated:

All eligible employees shall receive a payment to their account equal to 2.5% of their prior years’ earnings from the general fund.

Effective April 8, 2017, Section 6(d) was amended to read:

All eligible employees shall receive a payment to their account equal to 3.00% of their prior years’ earnings from the general fund.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the plan members' accounts were properly funded.

Effect: The failure to properly allocate contributions to the members' accounts has resulted in certain plan members receiving benefits in excess of those to which they are entitled and other members being denied benefits to which they are entitled in accordance with the plan's governing document.

Recommendation: We recommend that the township review the applicable members' accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

Management's Response: Municipal officials agreed with the finding without exception and indicated that they will take appropriate action to comply with the recommendation upon receipt of the report.

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

**Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The township failed to certify one eligible non-uniformed employee (1 unit) and understated payroll by \$27,667 on the Certification Form AG 385 filed in 2013. The data contained on this certification form is based on prior calendar year information.

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

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because Armagh Township participated in a regional police pension plan in 2013, the township's state aid allocation for its non-uniformed pension plan was separately calculated by the Department of the Auditor General Comptroller's Office using an alternate method, taking into account the municipality's pension costs and unit value as well as the municipality's percentage of the regional police pension plan's pension costs and unit value. The township's original state aid allocation for 2013 was \$11,186. Based on the corrected information, the township was entitled to an allocation of \$14,915. Therefore, the township received a \$3,729 underpayment of state aid in 2013.

Although the additional state aid will be allocated to the township, the full amount of the 2013 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We 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.

We also recommend that upon receipt of the additional state aid allocation, plan officials contribute an equal share of the \$3,729 to the four employees who were eligible in 2013.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 6,230	\$ 3,323
2012	10,360	2,678
2013	11,186	3,214
2014	7,173	4,144
2015	7,119	3,618
2016	7,973	3,688

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Greg Bitner**  
Chairman, Board of Township Supervisors

**Ms. Brenda E. Aumiller**  
Township Secretary

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).