

COMPLIANCE AUDIT

Armagh Township Non-Uniformed Pension Plan Mifflin County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

July 2021



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
Armagh Township
Mifflin County
Milroy, PA 17063

We have conducted a compliance audit of the Armagh Township Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2020. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions 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 period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all 6 active employees employed during the audit period amounting to \$7,244, \$7,751, \$6,212 and \$7,967 for the years 2017, 2018, 2019 and 2020, respectively, made during the audit period.
- We determined whether retirement benefits calculated for the plan member who retired 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, 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.
- We determined whether the terms of all six of the plan's allocated insurance contracts, 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.

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. 67 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

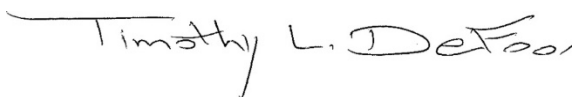
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Armagh Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Armagh 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 – Noncompliance With Prior Recommendation - Failure To Properly Fund Member's Account
- Finding No. 2 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Underpayment Of State Aid
- Finding No. 3 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services
- Finding No. 4 – Ordinance Improperly Amended By Motion In Minutes

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 contents of this report were discussed with officials of Armagh 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

July 14, 2021

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Recommendation – Failure To Properly Fund Members’ Accounts	3
Finding No. 2 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Underpayment Of State Aid.....	6
Finding No. 3 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services.....	7
Finding No. 4 – Ordinance Improperly Amended By Motion In Minutes	9
Summary of Deposited State Aid and Employer Contributions.....	10
Report Distribution List	11

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 2 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 Armagh 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 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 Non-Uniformed Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance 1987-1, as amended. The plan was established January 1, 1987. Active members are required to contribute 3 percent of gross wages to the plan. The municipality is required to contribute an equal share of the township's annual state aid allocation to each eligible employee on the date of receipt. For employees hired after the beginning of the plan, the township shall contribute \$500 from the general fund for each such new employee on the first anniversary date following employment and for 2 consecutive years thereafter, if continue in township employment so long. Beginning in 2017, all eligible employees shall also receive an additional payment to their accounts equal to 3 percent of their prior year's earnings from the general fund as monies become available, and 4 percent of their prior year's earnings for the years 2018, 2019, and 2020. As of December 31, 2020, the plan had 3 active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree receiving pension benefits.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

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

- Improper Distribution to Active Employee of Pension Plan

The employee in question subsequently retired at the end of the audit period and is receiving Required Minimum Distributions (RMD) from annuity contracts pursuant to IRS regulations and in accordance with the plan document.

- Incorrect Data on Certification Form AG 385 Resulting In An Underpayment Of State Aid

The township complied with the instructions accompanying Certification Form AG-385 and accurately reported the required pension data during the audit period.

Noncompliance With Prior Recommendation

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

- Failure to Properly Fund Members' Accounts

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Failure To Properly Fund Members’ Accounts

Condition: As disclosed in the prior audit report, the township did not properly fund members’ accounts in 2012, 2013, and 2017, as follows:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>2012 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	\$ (700)

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>2013 Required Contributions</u>	<u>Contributions In Excess (Due)</u>
8/15/11	\$ 3,296	\$ 3,988	\$ (692)

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>2017 Required Contributions</u>	<u>Contributions In Excess (Due)</u>
5/1/1981	\$ 3,215	\$ 3,447	\$ (232)
3/14/2005	3,069	3,272	(203)
1/15/2007	2,898	3,068	(170)
8/15/2011	2,833	2,988	(155)
		Total	\$ (760)

A similar condition occurred during the current audit period. The township again did not properly fund the accounts of its members in 2019, and 2020, as illustrated below.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>2019 Required Contributions</u>	<u>Contributions In Excess (Due)</u>
05/01/1981	\$ 4,198	\$ 6,557	\$ (2,359)
03/14/2005	3,928	6,213	(2,285)
01/15/2007	3,732	1,411	2,321
08/15/2011	3,664	-	3,664
		Total	<u>\$ 1,341</u>

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>2020 Required Contributions</u>	<u>Contributions In Excess (Due)</u>
01/12/2019	\$ 500	\$ 1,957	\$ (1,457)
01/10/2019	500	1,729	(1,229)
		Total	<u>\$ (2,686)</u>

In addition, it was also noted that the township did not submit the plan’s annual determination of its expected minimum municipal obligation (MMO) to the governing body for approval and inclusion in the municipal budget.

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 the 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 by Ordinance No 2010-1, stated:

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

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Section 6(d) of Ordinance No. 1987-1, as further amended by an ordinance enacted April 3, 2017, states, as follows:

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

Effective January 2, 2018, and reapproved on January 7, 2019, January 6, 2020, and January 4, 2021, the Board of Township Supervisors passed a motion in the minutes, as follows:

The township will pay into all full-time employee's pension fund 4% of their annual income.

It should be noted that the Board of Township Supervisors did not properly amend the plan's ordinance in 2018, 2019, 2020, or 2021 as further discussed in Finding No. 4 of this audit report.

Cause: Township officials failed to establish procedures or financial schedules to establish adequate internal controls to follow the specifications of its adopted ordinances. Specifically, there was a misunderstanding as to when a retired, vested, or otherwise terminated employee is no longer eligible to receive a municipal contribution and/or share of the township's state aid allocation, and likewise, when new plan members are eligible to receive municipal contributions.

Effect: The failure to properly determine and allocate contributions to members' accounts in accordance with the plan's governing document results in certain plan members receiving benefits in excess of authorized amounts and other members being denied benefits to which entitled under the plan.

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

We also recommend that, in the future, the township prepare the plan's annual MMO for the upcoming budget year by the last business day of September and submit it to the governing body for approval and inclusion in the municipal budget, as required by Act 205.

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.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Underpayment Of State Aid

Condition: The actuarial valuation report (Form Type A) for the non-uniformed pension plan, with a valuation date of January 1, 2019, submitted to the Municipal Pension Reporting Program (MPRP) on May 21, 2020, contained incorrect information. The township incorrectly reported municipal and member contributions, specified as a percentage of payroll, as 0% when actual contribution percentages were 4% and 3%, respectively, pursuant to amending plan documents (*as noted earlier in Criteria in Finding No. 1*). In addition, the township incorrectly reported municipal contribution amounts as \$0 when actual municipal contributions amounted to \$18,369 and overstated reported member contributions \$18,369 when actual member contributions amounted to \$7,859 according to municipal records as of the valuation date.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: The discrepancies occurred because plan officials did not verify that the information reported on the valuation report was consistent with the township's financial records, pension ordinance and amendments. Additionally, at the time, plan officials were using the new online submission form for the first time and the township did not ensure that training on the new form was adequate or that the report was reviewed by a second person knowledgeable with the pension plan for accuracy prior to submission.

Effect: Because the municipality's state aid allocations is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in an inaccurate calculation of the plan's normal cost, and consequently the municipality received no state aid allocation for the year 2020. In addition, the township's state aid allocation for 2021 will also be impacted.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, as disclosed earlier in Finding No. 1, since annual contributions to members is contingent upon the annual state aid allocation received by the township as specified in the pension plan document, members’ accounts were also impacted during 2020, accordingly.

Recommendation: We recommend that plan officials contact the Municipal Pension Reporting Program to determine whether a revised actuarial valuation report should be submitted. If a revised report is prepared and accepted by the Municipal Pension Reporting Program, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120

We also recommend that, in the future, plan officials review and verify all information submitted to the Municipal Pension Reporting Program (formerly PERC) so that future actuarial valuation reports properly reflect the status of the pension plan.

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

Auditor’s Conclusion: Compliance will be evaluated during the next audit of the plan.

Finding No. 3 – Failure To Implement Mandatory Act 44 Procedures For The Procurement Of Professional Services

Condition: As disclosed to municipal officials during the prior engagement, municipal officials failed to adopt the mandatory provisions of Act 205 regarding professional services contracts.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Cause: Plan officials failed to establish adequate procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The township's failure to comply in all respects with the previous recommendation and the provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the township's pension plan could result in a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the investment and advisory services contract for the township's pension plan.

ARMAGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions while maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan, including authorizations/approvals of township officials in the official minutes of formal board meetings and the required notifications and disclosure responsibilities to ensure the transparency of the actions taken by plan officials relative to the awarding of such professional services contracts.

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.

Finding No. 4 – Ordinance Improperly Amended By Motion In Minutes

Condition: The pension plan governing document, Ordinance No. 1987-1, as amended, was improperly amended by a motion in the minutes to change the rate of the municipal contribution to the pension plan.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution or motion in the minutes.

Cause: Municipal officials were not aware that a resolution or motion in the minutes cannot amend an ordinance.

Effect: The failure to properly adopt the restated plan document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the township amend the plan’s governing document with a properly executed ordinance.

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.

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

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 7,119	\$ 3,618
2016	7,973	3,688
2017	8,215	3,799
2018	12,284	6,085
2019	9,137	6,349
2020	None*	4,806

** Refer to Finding No. 2 contained in this report.*

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. Clint N. Aurand
Chairman, Board of Township Supervisors

Mr. Sidney B. Hile
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Ms. Brenda E. Aumiller
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