

# COMPLIANCE AUDIT

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## Conemaugh Township Non-Uniformed Pension Plan Indiana County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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March 2023



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  
Conemaugh Township  
Indiana County  
Saltsburg, PA 15681

We have conducted a compliance audit of the Conemaugh Township Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2021. 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 finding 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 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 monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022, 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 Conemaugh 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 Conemaugh 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 Conemaugh 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:

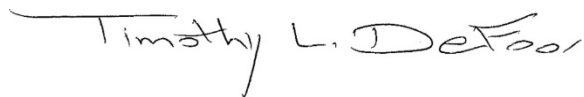
Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 2 – Failure To Fully And/Or Timely Deposit State Aid Into An Eligible Pension Plan

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 Conemaugh 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  
March 9, 2023

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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 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 Conemaugh 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 Conemaugh Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 10-05-20, and a separately executed adoption agreement with the plan custodian, effective September 1, 2020, adopted pursuant to Act 15. Prior to September 1, 2020, the plan was controlled by the provisions of Ordinance No. 1-07-02-C, adopted pursuant to Act 15. The plan was established January 1, 1972. Active members are not required to contribute to the plan. As of December 31, 2021, the plan had three active members, two terminated members eligible for vested benefits in the future, and four retirees receiving pension benefits.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

Conemaugh Township has complied with the prior recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the township returned \$4,375 to the Commonwealth for the over payment of state aid received in 2016.

Partial Compliance With Prior Recommendation

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

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

The township adequately determined the minimum municipal obligations (MMOs) due to the pension plan for the current audit period; however, plan officials again failed to pay the outstanding 2017 MMO due the plan in accordance with Act 205, as further discussed in the Findings and Recommendations section of this report.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan**

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by accurately determining the minimum municipal obligations (MMOs) due to the pension plan for the current audit period, including subsequent year 2022. However, the township again failed to deposit the outstanding 2017 MMO balance in the amount of \$2,255. In addition, the municipality did not pay the MMO that was due to the pension plan for the year 2022, in the amount of \$7,965, as required by Act 205.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

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 at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The township again failed to implement inadequate internal control procedures to ensure that the annual MMOs due to the pension plan were remitted timely (*i.e., by December 31, of the plan year*) in accordance with Act 205.

Effect: The failure to fully pay the annual MMOs could result in the plan not having adequate resources to meet current and future benefit obligations to its members.



CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Furthermore, due to the municipality’s failure to pay the outstanding 2017 and 2022 MMO balances by the December 31, deadlines, the municipality must add the remaining 2017 and 2022 MMO balances to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We again recommend that the municipality pay the outstanding MMOs due to the pension plan for the years 2017 and 2022, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

In addition, we recommend that, in the future, plan officials properly determine the amount of payroll to be used in the MMO calculation and fully and timely pay the MMO due the plan by the December 31 deadline in accordance with Act 205.

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

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

**Finding No. 2 – Failure To Fully And/Or Timely Deposit State Aid Into An Eligible Pension Plan**

Condition: The municipality did not deposit the full amount of its 2019, 2021 and 2022 state aid allocations into the pension plan. The municipality received its 2019, 2021 and 2022 state aid allocations in the amounts of \$15,361, \$8,548 and \$7,236, on September 18, 2019, September 28, 2021, and September 28, 2022, respectively; however, as of the date of this report, only state aid totaling \$22,563 was actually deposited into the pension plan.

In addition, it was further disclosed that the municipality did not timely deposit its 2018, 2019, 2020 and 2021 state aid into the pension plan within the 30-day grace period allowed by Act 205. The municipality received its 2018, 2019, 2020 and 2021 state aid allocations in the amount of \$18,738, \$15,361, \$7,923 and \$8,548, on September 20, 2018, September 18, 2019, September 29, 2020, and September 28, 2021, respectively; however, the township did not deposit these funds into its pension plan until November 26, 2018, December 23, 2019, March 1, 2021, and December 28, 2021, respectively.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: The Chief Administrative Officer was unaware of applicable Act 205 provisions and the township lacked adequate internal control procedures to ensure the full and timely deposit of the township’s annual state aid allocations.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to fund benefits, pay operating expenses or for investment and the risk of misapplication is increased. In addition, interest earned beyond the 30 day grace period was not deposited into the plan.

Recommendation: We recommend that the township deposit the undeposited state aid in the total amount of \$8,582 for the years 2019, 2021 and 2022 into the pension plan, along with the interest earned beyond the 30-day grace period allowed by Act 205, for not only the outstanding 2019, 2021 and 2022 amounts but also the interest on the late deposits of its 2018, 2020 and 2022 state aid, compounded annually. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

In addition, we recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into the non-uniformed pension plan within 30 days of receipt by the municipal treasurer in accordance with 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.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 502,753	\$ 525,639	\$ 22,886	95.6%
01-01-19	494,377	485,394	(8,983)	101.9%
01-01-21	532,878	576,618	43,740	92.4%

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 21,386	\$ 21,386	\$ -	\$ 110,865	19.3%
2015	22,682	22,702	(20)	101,431	22.4%
2016	21,457	21,477	(20)	113,473	18.9%
2017	19,957	19,957	-	125,465	15.9%
2018	22,933	22,933	-	102,809	22.3%
2019	14,379	14,419	(40)	76,061	19.0%
2020	15,539	15,539	-	85,752	18.1%
2021	8,399	8,399	-	*	

\* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2021
Actuarial cost method	Entry age normal
Amortization method	Level Dollar for plan bases and an average for aggregate gain/loss, 10% of surplus is credited against aggregate cost where applicable
Remaining amortization period	13 years
Asset valuation method	Not available
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses.
Projected salary increases *	4.1%
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year, subject to plan limitations

*The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020, which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.*

CONEMAUGH 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. William Petro Sr.**  
Chairman, Board of Township Supervisors

**Ms. Ashley Harmon**  
Chief Administrative Officer

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

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