

COMPLIANCE AUDIT

Mahoning Township Union Employees Retirement Plan Lawrence County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

January 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
Mahoning Township
Lawrence County
Hillsville, PA 16132

We have conducted a compliance audit of the Mahoning Township Union Employees Retirement Plan for the period January 1, 2016 to December 31, 2019. 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.

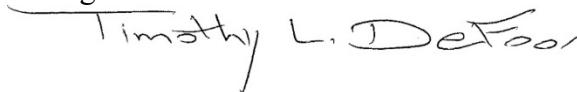
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2015, January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mahoning Township Union Employees Retirement 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 objective.

The results of our procedures indicated that, in all significant respects, the Mahoning Township Union Employees Retirement Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Awarding Of Professional Services Contract Not Conducted in Accordance With Provisions Of Act 205

The contents of this report were discussed with officials of Mahoning 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

January 21, 2021

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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 Mahoning Township Union Employees Retirement 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.

The Mahoning Township Union Employees Retirement Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 02-2001, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its union employees. The plan was established January 1, 1996. Active members are not required to contribute to the plan. The municipality is required to contribute 5 percent of compensation. As of December 31, 2019, the plan had three active members.

MAHONING TOWNSHIP UNION EMPLOYEES RETIREMENT PLAN
FINDING AND RECOMMENDATION

Finding – Awarding Of Professional Services Contract Not Conducted In Accordance With Provisions Of Act 205

Condition: In 2020, the township changed custodians and entered into an agreement with a provider for custodial services for the pension plan. However, there was no substantive evidence provided to support that the change in service provider was conducted in accordance with provisions of Act 205.

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.

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.

MAHONING TOWNSHIP UNION EMPLOYEES RETIREMENT PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

Section 703-A (c) states in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Furthermore, Resolution No. 07-2014, enacted by the township on November 13, 2014, established procedures for the procurement of professional services for the municipal pension system in accordance with Act 205 provisions.

Cause: Plan officials failed to establish adequate procedures to properly follow and document adherence with each requirement prescribed under the provisions of Act 205 and its own procurement procedures in the awarding of the professional services contract for the custodial services for the township's non-uniformed pension plan.

Effect: We were unable to determine whether the township complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures for the procuring of professional custodial services for the township's non-uniformed pension plan. Also, by failing to maintain appropriate substantive supporting documentation evidencing adherence with each requirement prescribed under Act 205 and the township's own procedures in the awarding of the professional services contract, it denotes a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the custodial services contract for the township's non-uniformed pension plan.

Recommendation: We recommend the township follow procedures developed and implemented by the township in Resolution No. 07-2014 for the procurement of professional services for the township's pension plans and ensure compliance with Act 205 provisions while maintaining appropriate and sufficient supporting documentation. This documentation should evidence every phase of the process in accordance with the township's policies and procedures in the awarding of future professional services contracts for the township's pension plans.

MAHONING TOWNSHIP UNION EMPLOYEES RETIREMENT PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, since we were unable to conclude whether the township complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures relative to the procurement of the professional custodial services for the township's non-uniformed pension plan awarded in 2020, we recommend that plan officials, along with current township officials, collectively review the process and familiarize themselves with the procedures enacted by the township while closely examining and identifying ways to improve the process as a whole, thus ensuring transparency for plan members as well as the citizens of Mahoning Township and the avoidance of any confusion pertaining to the proper administration of the township's pension plans.

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.

MAHONING TOWNSHIP UNION EMPLOYEES RETIREMENT PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2014	\$ 6,781	None
2015	4,418	\$ 851
2016	3,390	970
2017	1,801	3,775
2018	2,653	3,026
2019	5,644	178

MAHONING TOWNSHIP UNION EMPLOYEES RETIREMENT PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Gary Pezzuolo
Chairman, Board of Township Supervisors

Ms. Jean M. Greco
Secretary/Treasurer

This report is a matter of public record and is available online at 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.