

# COMPLIANCE AUDIT

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## North Buffalo Township Non-Uniformed Pension Plan Armstrong County, Pennsylvania For the Period January 1, 2017 to December 31, 2021

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June 2022



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  
North Buffalo Township  
Armstrong County  
Kittanning, PA 16201

We have conducted a compliance audit of the North Buffalo Township Non-Uniformed Pension Plan for the period January 1, 2017 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings 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.

- 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 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 benefit due to the retired individual and comparing this amount 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.

The North Buffalo 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 North Buffalo 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 objective.

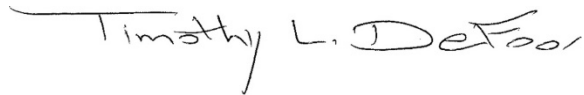
The results of our procedures indicated that, in all significant respects, the North Buffalo Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

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 North Buffalo 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor  
Auditor General  
May 12, 2022

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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 North Buffalo 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.

The North Buffalo Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 19-3, and a separately executed plan agreement with the plan custodian, effective January 1, 2020. Prior to January 1, 2020, the plan was locally controlled by the provisions of Ordinance No. 14-1, and a prior plan agreement with the plan custodian, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established November 1, 2002. Active members are not required to contribute to the plan but may voluntarily contribute up to 10 percent of compensation. The municipality was required to contribute 6 percent of compensation for the years 2017, 2018, and 2019 and 11 percent for the years 2020 and 2021. As of December 31, 2021, the plan had 4 active members.

NORTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: The township received state aid in excess of the non-uniformed pension plan’s pension costs and also made municipal contributions in excess of those required to fund the plan in the years 2017 and 2018, as illustrated below:

	<u>2017</u>	<u>2018</u>
Actual municipal pension costs	\$ 5,641	\$ 6,136
Forfeitures available	<u>(5,641)</u>	<u>(1,606)</u>
Adjusted actual municipal pension costs	-	4,530
State aid allocated	<u>3,468</u>	<u>4,744</u>
Excess state received	3,468	214
<i>Less: 2017 state aid returned in 2018</i>	<u>1,413</u>	<u>-</u>
Excess state aid to be returned to Commonwealth	<u>\$ 2,055</u>	<u>\$ 214</u>
Actual municipal contributions made	2,173	1,367
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>
Excess municipal contributions	<u>\$ 2,173</u>	<u>\$ 1,367</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

In addition, Section 9.01(a) of the plan agreement states:

The municipality shall contribute 6% of each member’s compensation...

NORTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Cause: Although municipal officials reconciled state aid to annual pension costs for the years 2015 and 2016, and returned the excess state aid, accordingly; miscommunication between the plan’s custodian and the township resulted in the inconsistent application of available terminated, forfeited employer contribution balances towards the municipal pension costs incurred during 2017 and 2018, which resulted in excess municipal contributions and an increase in the unallocated municipal reserve balance maintained with the custodian.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the years 2017 and 2018, in the total amount of \$2,269, must be returned to the Commonwealth for redistribution.

In addition, as a result of the township not using available reserve funds towards its pension plan costs, an unallocated reserve fund remains in the amount of \$5,965, as illustrated by the following:

	<u>2017</u>	<u>2018</u>	<u>2019*</u>
Unallocated reserve fund at January 1	\$ 7,669	\$ 6,516	\$ 6,709
Applied Forfeitures	(3,027)	-	-
Unapplied Forfeitures	839	-	-
Excess State Aid deposited	2,296	-	-
Excess Municipal Contributions	-	-	1,526
Municipal deposit its transferred to reserve	-	7,199	-
Interest on reserve funds	373	458	503
Administrative expenses	-	-	-
Excess State Aid returned to Commonwealth	(1,634)	(1,413)	-
Transfer to member accounts	<u>-</u>	<u>(6,051)</u>	<u>(2,773)</u>
Unallocated reserve fund at December 31	<u>\$ 6,516</u>	<u>\$ 6,709</u>	<u>\$ 5,965</u>

\* *The December 31, 2020, and 2021 Municipal Reserve Account balances were not available at the time of this audit (refer to Finding No. 2 of this report).*



NORTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

**Recommendation:** We recommend that the municipality return the \$2,269 of excess state aid received in the years 2017 and 2018 from the pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

We also recommend that the township liquidate the remaining unallocated reserve fund maintained by the pension plan by applying such reserve funds towards future contributions required to fund the plan before any additional state aid and/or municipal contributions are deposited into the pension plan account.

Furthermore, we again recommend that plan officials reconcile the amount of state aid allocated to the township, available forfeitures and municipal contributions made to the pension plan, with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth. Additionally, if subsequent forfeitures become available, plan officials should consult with the custodian (*PMRS*) to determine whether additional municipal contributions are needed to meet the plan's funding obligations.

**Management's Response:** The township disagreed with the finding and on May 4, 2022, provided the following written response:

According to the municipality's records, all excess state aid not applied to eligible, full-time municipal for member contributions has been returned. The municipality is not clear as to why there would be municipal contributions made in excess of contributions required to fund the plan, unless it has something to do with the plan custodian applying forfeitures differently than how forfeitures were applied by the municipality. The municipality will contact and work with the plan custodian to reconcile the amounts in question.

**Auditor's Conclusion:** Based on the criteria cited above, the finding remains as stated. Compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

NORTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan**

Condition: The municipality’s accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the years 2020 and 2021. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, municipal officials indicated that the plan’s custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the years 2020 and 2021.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan’s financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the years 2020 and 2021 to ensure the accuracy and propriety of the transaction activity.

Management’s Response: The township disagreed with the finding and on May 4, 2022, provided the following written response:

The municipality maintains proper records and a very detailed paper trail of all pension plan transactions. The plan custodian is behind in their reporting.

NORTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Auditor Conclusion: The department acknowledges the township’s position. However, as aforementioned earlier in this report, the department’s authority to audit every municipality which receives general municipal pension system state aid is derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)). The department does not have the authority to audit the plan custodians. And as indicated in the Criteria above, although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

It was noted that the plan custodian recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. In addition, the custodian has taken active measures to resolve these issues and anticipates distribution of the 2020 reports and statements for their plans beginning the last week of March and completion of the 2020 financial reporting this summer. Moreover, the custodian expects 2021 financial reports to be distributed before the end of 2022. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

NORTH BUFFALO TOWNSHIP NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll***	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 4,884	\$ 5,393	\$ (509)	\$ 80,406	6.71%
2015	4,586	4,088	498	75,087	5.44%
2016	4,105	1,872	2,233	67,424	2.78%
2017	5,641	3,277	2,364	93,023	3.52%
2018	6,111	5,846	265	100,849	5.80%
2019	8,581	8,277	304	141,685	5.84%
2020	16,889	16,889	-		
2021	18,382	18,382	-		

\* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

\*\* The SRC and the actual Contribution were provided by the custodian. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account. In 2017, the variance is attributable to the application of available forfeitures. The 2018 and 2019 variances are due to outstanding contributions due for two participants.

\*\*\* Due to the timing of this audit, covered-employee payroll for 2020 and 2021 was not provided in this schedule.

NORTH BUFFALO 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. Michael Valencic**  
Chairman, Board of Township Supervisors

**Ms. Pamela L. Bowser**  
Secretary

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

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