

# COMPLIANCE AUDIT

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

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February 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  
Union Township  
Mifflin County  
Belleville, PA 17004

We have conducted a compliance audit of the Union 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 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 plan members who separated employment and received a lump-sum distribution during the current audit period and subsequent to 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 individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- 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 the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

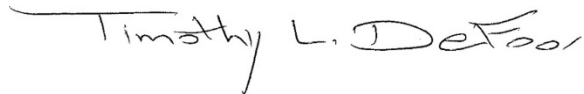
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Union Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Union 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 Fund Member Accounts
- Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement
- Finding No. 3 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

The contents of this report were discussed with officials of Union 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, 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 Union 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 Union Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance 2017-1 and a separately executed plan agreement with the plan's custodian, effective January 1, 2013. The plan was established January 1, 1984. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of the participant's annual compensation. As of December 31, 2020, the plan had 4 active members and 3 terminated members eligible for vested benefits in the future.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendation

Union Township has partially complied with the prior recommendations concerning the following:

- Failure To Properly Fund Members' Accounts

Municipal officials deposited and allocated \$14,111 into seven members' accounts for the shortages discovered during the years 2013 through 2016 as previously recommended. However, plan officials again failed to include contributions in the amount of \$1,232 for an additional member previously identified in the prior recommendation and implement procedures to ensure that the members' accounts were properly funded in accordance with the plan's governing document for the current audit period, as further discussed in the Findings and Recommendations section of this report.

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

During the current audit period, the township returned \$4,580 to the Commonwealth for the overpayment of state aid received in 2017; however, plan officials again failed to comply with the instructions accompanying Certification Form AG 385 to assist them in accurately reporting the required pension data, as further discussed in the Findings and Recommendations section of this report.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Recommendation – Failure To Properly Fund Members’ Accounts**

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by funding the shortages identified in seven members’ accounts for the years 2013 through 2016. However, plan officials again failed to include contributions for an additional member who was also previously identified in the prior audit report, as follows:

<u>Year</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions Outstanding</u>
2013	\$ 3,292	\$ 3,444	\$ (152)
2014	3,444	4,157	(713)
2015	3,325	3,692	(367)
Total			<u><u>\$ (1,232)</u></u>

In addition, a similar condition occurred during the current audit period. The township did not accurately fund the accounts of eight members, as follows:

For a member who vested during 2017 but was not entitled to a contribution according to the plan document, the township provided an excess contribution, as follows:

<u>Year</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess</u>
2017	\$ 1,509	\$ -	<u><u>\$ 1,509</u></u>

For a member who terminated employment during 2019 and was entitled to a final, partial contribution under the plan document, the township underfunded the member’s account, as follows:

<u>Year</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Vested Percentage</u>	<u>Contributions Outstanding</u>
2019	\$ -	\$ 3,172	40%	<u><u>\$ (1,269)</u></u>



UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

For six active members of the pension plan, the township failed to properly determine and allocate contributions during 2020 in accordance with the plan document, as follows:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions Outstanding</u>
01/02/1990	\$ 990	\$ 6,029	\$ (5,039)
10/21/2019	656	3,994	(3,338)
11/23/2015	-	1,318	(1,318)
08/26/2019	630	3,833	(3,203)
07/16/2001	700	4,260	(3,560)
10/21/2019	759	4,619	(3,860)
		Total 2020	<u>\$ (20,319)</u>
	Total Net Contributions Due To Members		<u>\$ (21,311)</u>

Criteria: As previously disclosed, the plan’s governing document, Ordinance No. 2014-01 which adopted a separately executed plan agreement with the plan’s custodian, established the municipal contribution rate equal to 10 percent of the participant’s annual compensation. Section 3.01 of the plan document, further states:

...Such contributions that are made for each person who was an Active Participant at any time since the last Contribution Date *[the last day of each Plan Year per Section 1.02]* shall be made in a manner that approximates the Contributions that would otherwise have been calculated as of the Contribution Date.

In 2017, the township enacted Ordinance No. 2017-1 to modify the employer contribution definition, as follows:

This Ordinance establishes an annual employer contribution equivalent to 10% of the current participation payroll play *(sic)* any forfeiture.

Furthermore, Section 3.03 of the plan document, defines forfeitures, as follows:

Forfeitures shall be determined at least once during each Plan Year. Forfeitures may first be used to pay administrative expenses. Forfeitures that have not been used to pay administrative expenses shall be allocated to each person eligible for Employer Contributions as of the last Contribution Date in the Plan Year... The amount allocated to each eligible person shall be equal to such Forfeitures for the Plan Year multiplied by the ratio of such person’s Annual Compensation as of such date to the total Annual Compensation of all such persons....

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Accordingly, based on the above provisions, members, including terminated members, are entitled to receive a 10% municipal contribution for their compensation up through their respective termination date, payable at the end of the plan year.

Cause: The township again failed to establish adequate internal control procedures to properly determine and fund members' accounts in accordance with the provisions contained in the plan's governing document and fully comply with the prior recommendation. In addition, during 2020, plan officials failed to properly apply forfeitures in accordance with the plan document and to the contrary, reduced its required contributions to members' accounts by the amount of forfeitures available and allocated to individuals during 2020.

Effect: The failure to properly fund members' accounts resulted in one plan member receiving benefits in excess of entitlement and other members being denied benefits to which entitled in accordance with the plan's governing document. In addition, due to the township's failure to properly fund the accounts of its members, the township must now pay interest on the delinquent contributions.

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

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

We also recommend that plan officials obtain familiarity with its annual funding and allocation requirements and again, 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, accordingly.

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.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement**

Condition: The township received state aid in excess of the pension plan’s defined contribution pension costs in the year 2019, as illustrated below:

State aid allocation	\$ 34,311
Actual municipal pension costs	<u>(24,264)</u>
Excess state aid	<u><u>\$ 10,047</u></u>

In addition, the township failed to properly account for its full allocation of state aid received during 2020 which remains in the township’s general fund, as follows:

State aid allocation	\$ 14,296
Less: 2020 State aid returned to Commonwealth*	<u>(10,150)</u>
Adjusted State Aid Allocation	4,146
State aid deposited into pension plan towards 2020 pension costs	<u>3,734</u>
Undeposited 2020 state aid	<u><u>\$ 412</u></u>

*\* It was noted that the township incorrectly returned 2020 state aid (\$10,150) during 2021. Additionally, due to the township’s failure to properly fund members’ accounts during 2020 and apply forfeitures as specified in the governing document, as noted in Finding No. 1 above, the township had unfunded pension costs (\$20,319) for 2020.*

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.

Cause: Plan officials failed to accurately and timely reconcile the amount of state aid received and allocated to the pension plan with the plan’s actual defined contribution pension costs and misapplied forfeitures according to the plan document as previously noted in Finding No. 1.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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.

Due to the township's failure to timely and accurately reconcile its annual state aid allocation with its actual pension costs, properly fund members' accounts and accurately apply forfeitures in accordance with plan provisions, the township will be reimbursed \$103 for the excess state aid returned to the Commonwealth during 2021 (*\$10,150 returned less \$10,047 excess 2019 state aid noted above*) to apply towards its outstanding 2020 pension costs.

Recommendation: We recommend the township immediately deposit the outstanding state aid (\$412) into the pension plan towards the outstanding 2020 pension obligation (*refer to Finding No. 1*). We also recommend that, in the future, plan officials reconcile the amount of state aid received and deposited into its pension plan with the plan's annual defined contribution pension costs. If an overpayment of state aid exists, it should be promptly reimbursed to the Commonwealth, accordingly.

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 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: As disclosed in the Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in 2017. However, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data during 2020. The township failed to certify 3 eligible non-uniformed employees and understated payroll by \$91,892 on the Certification Form AG 385 filed in 2020. These employees terminated employment in September 2019, after working six consecutive months full-time, and were therefore, eligible for certification. However, the township inadvertently omitted these individuals on the AG 385 certification form submitted during 2020. 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.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Cause: The township again failed to implement adequate internal control procedures, such as having another individual review the data certified and/or verify the eligibility status of its plan members at the time the certification form is prepared and submitted, to ensure compliance with the instructions accompanying AG 385 and the prior audit recommendation.

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 Union Township participates in a regional police pension plan, the township’s state aid allocation for its non-uniformed pension plan is separately calculated 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. As such, the township’s original state aid allocation for 2020 was \$14,296 (3 units), based on the alternate method. Based on the corrected information, the township was entitled to 6 units, and an allocation of \$28,592, also based on the alternate method. Therefore, the township received an underpayment of state aid of \$14,296 in 2020.

However, an analysis of the township’s actual pension costs for 2020 in comparison with its revised state aid allocation entitlement limits the actual net underpayment of state aid due the township, as illustrated below:

Recalculated State Aid allocation for 2020	\$ 28,592
Actual municipal pension costs <i>(less administrative expenses paid with available forfeitures)</i>	<u>(24,053)</u>
Recalculated State Aid in excess of pension costs	<u>\$ 4,539</u>
State Aid Underpayment due township <i>(noted above)</i>	\$ 14,296
Less: State Aid in excess of actual pension costs	<u>(4,539)</u>
Revised State Aid Underpayment due to township	<u>\$ 9,757</u>

Although the township will be reimbursed for the net underpayment of state aid due to the township’s certification error, the full amount of the 2020 state aid allocation was not available to be deposited timely and therefore was not available to fund members’ accounts, pay operating expenses or for investment.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We again recommend that, in the future, the township establish adequate internal control procedures, such as having at least 2 people review the propriety of 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.

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.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

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

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 22,113	None
2016	20,865	\$ 1,395
2017	26,264	7,035
2018	31,569	1,197
2019	22,996	None
2020	3,734	None

*Note: In 2020, the township did not meet the plan's \$26,853 funding requirement as noted in Finding No. 1. The township deposited \$3,734 in state aid, and applied \$2,800 in terminated employee forfeitures towards administrative expenses. However, there remains a pension funding obligation due members amounting to \$20,319 for 2020.*



UNION 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. Brian Glick**  
Chairman, Board of Township Supervisors

**Ms. Michelle Shirey**  
Secretary/Treasurer

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