

COMPLIANCE AUDIT

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

June 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
Conemaugh Township
Cambria County
Johnstown, PA 15902

We have conducted a compliance audit of the Conemaugh 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding 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:

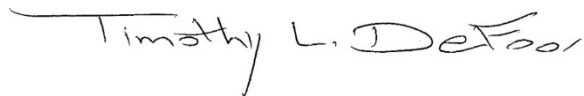
- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit. State aid allocations that 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.
- 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, 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 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 finding further discussed later in this report:

Finding – Failure To Fund Member Accounts

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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General

May 25, 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 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.

The Conemaugh Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 12-27-93, as amended. The plan was established December 27, 1993. Active members are not required to contribute to the plan. The municipality is required to contribute \$4,000 per year per member. As of December 31, 2020, the plan had three active members.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

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

- Improper Vesting Distribution

In 2017, the township reimbursed \$7,600 to the three members or to their account, as applicable, who were active at the time of the improper vesting distribution in accordance with Resolution No. 5-05. In addition, the township amended the pension plan with Ordinance No. 2017-1 to provide plan members with immediate vesting.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding – Failure To Fund Member Accounts

Condition: In 2017 and 2018, the township did not fund the accounts of two employees who met the eligibility criteria to become plan members effective April 11, 2017 and August 7, 2018, respectively, as illustrated below:

2017:

<u>Employee Full Time Hire Date</u>	<u>Plan Entry Eligibility Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions Due</u>
04/11/2016	04/11/2017	\$ 0	\$ 4,000	\$ 4,000

2018:

<u>Employee Full Time Hire Date</u>	<u>Plan Entry Eligibility Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions Due</u>
08/07/2017	08/07/2018	\$ 0	\$ 4,000	\$ 4,000

Criteria: Ordinance No. 2017-1, effective January 1, 2017, states, in part:

Section 1. Pension Eligible, Employees hired by the supervisors as ... full time Road employees of Conemaugh Township, shall be eligible for inclusion in the township defined contribution plan after one year of service following formal hire.

Section 2. Time for Payments, Payments to the Pension Plan shall be made at the end of each year of service, in which an employee is eligible. Payment shall be made into individual retirement accounts of each eligible, full time employee. Employer contributions to the Pension Plan shall not be due until the end of each calendar year of service. An employee becoming eligible during the year shall receive a full payment at the end of the year the employee became eligible and each succeeding year in which they maintain their status as a full time employee.

Section 3. Contribution Rate, The Contribution Rate, for the Conemaugh Township ... Road Employee Pension Fund shall be:

- a) Contribution for full-time road workers of \$4,000.00 per year (one unit).

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding – (Continued)

Cause: Municipal officials stated that there was a turnover in the position appointed as the Chief Administrative Officer. Current officials indicated the employee files were not well maintained and there were variances with the employee dates of plan entry. Furthermore, effective January 1, 2017, the township changed its employer contribution basis from a percentage of payroll to an annual flat dollar amount. Accordingly, the township's past practice of basing current year contributions on prior year employee salary is no longer valid, as the employee is eligible for membership and for the receipt of employer contributions into their pension plan account one year after formal hire.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Due to township's failure to properly fund the two referenced members' accounts, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contribution due to the member accounts for the years 2017 and 2018, with interest from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

Management's Response: Municipal officials stated that the township paid the money correctly and provided the following information:

Employee 1:

- Started working April 11, 2016 (Full-time)
- Became Road Foreman on May 2, 2016
- Eligible for Pension Plan in 2017. But because the pension payout is one year behind, his payments into the trust would begin in 2018.

Employee 2:

- Started working September 26, 2016 (Part time)
- Became full time on August 7, 2017
- Eligible for Pension Plan in 2018. But because the pension payout is one year behind, his payments into the trust would begin in 2019.

CONEMAUGH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding – (Continued)

Auditor’s Conclusion: The *Conemaugh Township Employees’ Pension Plan* was established and implemented by a Resolution dated December 27, 1993, effective retroactively to January 1, 1993. That resolution set the township’s funding rate at six percent of participant’s compensation, which the township adhered to until it amended the plan and adopted and implemented Ordinance No. 2016-2, effective August 1, 2016. Specifically, Section 1 of this ordinance changed the township’s funding rate to a flat annual rate of \$4,000 for full-time road workers, per year. The township again amended the plan with Ordinance No. 2017-1, effective January 1, 2017, which restated the \$4,000 annual employer rate but also included Sections 1 and 2, defining *pension eligibility* and *time for payments* as disclosed in the finding. The township did not provide evidence of contributions made for the employee identified above as Employee 1 for the year 2017 and for the employee identified above as Employee 2 for the year 2018 during the conduct of our audit. Therefore, based on the township’s definitions of pension eligibility, timing of payments, the employer rate, and the impacted employees’ dates of hire, the finding and recommendation remain as stated.

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

Year Ended December 31	State Aid	Employer Contributions
2015	\$ 2,719	None
2016	3,090	None
2017	4,000	None
2018	8,000	None
2019	12,000	None
2020	12,000	None

CONEMAUGH 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. Kurt Freidhoff
Chairman, Board of Township Supervisors

Ms. Pamela A. Albus
Chief Administrative Officer

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.