

ALSACE TOWNSHIP NONUNIFORMED PENSION PLAN

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Alsace Township Nonuniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission 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 Alsace Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2001-7, as amended, adopted pursuant to Act 69. Active members are not required to contribute to the plan. The municipality is required to contribute 8.5 percent of each member's compensation.



Board of Township Supervisors
Alsace Township
Berks County
Temple, PA 19560

We have conducted a compliance audit of the Alsace Township Nonuniformed Pension Plan for the period January 1, 2006, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 audit 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.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Alsace Township Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Alsace Township Nonuniformed 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 – Failure To Fund Member’s Account

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting
In An Underpayment Of State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Alsace Township and, where appropriate, their responses have been included in the report.

April 17, 2009

JACK WAGNER
Auditor General

ALSACE TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Alsace Township has complied with the prior audit recommendations concerning the following:

· Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$2,980 to the Commonwealth for the excess state aid received;
and

· Failure To Properly Fund Members' Accounts

The township deposited the outstanding amounts due to the appropriate members' accounts.

ALSACE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Fund Member’s Account

Condition: In 2005 and 2006, the township did not fund the account of an employee who was hired on January 1, 2004. The member is due a municipal contribution in the amounts of \$2,872 and \$3,080, respectively.

Criteria: Article IV of the plan’s governing document states that an employee shall become an active member of the plan on the date he completes one-year of service (*defined in Article II, 2.23 as a period in which an employee completes at least six consecutive months and works 35 hours per week*).

Furthermore, according to Article VI, such member is entitled to an employer contribution equal to 8.5 percent of the member’s compensation for the plan year.

Cause: Township officials were unaware of their obligation to make employer contributions for the above-referenced employee.

In addition, the township failed to deposit \$2,177 of their 2006 state aid allocation which should be utilized to fund the delinquent 2006 contribution due.

Effect: The failure to properly fund the member’s account will result in the plan member being denied benefits to which he is entitled in accordance with the plan’s governing document.

Furthermore, due to the township’s failure to properly fund the member’s account, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contributions due to the member’s account for the years 2005 and 2006, in the amounts of \$2,872 and \$3,080, with interest. A copy of the interest calculations 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 agreed with the finding without exception.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify an eligible nonuniformed employee (1 unit) and understated payroll by \$33,785 in 2006 on Certification Form AG 385.

ALSACE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Additionally, Article IV of the plan’s governing document states that an employee shall become an active member of the plan on the date he completes one-year of service (*defined in Section 2.23 as a period in which an employee completes at least six consecutive months and works 35 hours per week*).

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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 the township’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
8.5%	\$ 33,785	\$ 2,872

Although the township will be partially reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2006 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

The reimbursement will be limited to \$903, which is the difference of the outstanding amount owed to the plan member for 2006 (\$3,080) and the undeposited 2006 state aid allocation amount (\$2,177) which remains in the township’s general fund (See Finding No. 1).

Recommendation: We recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 and the applicable provisions contained in the plan agreement to assist them in accurately reporting the required pension plan data.

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

ALSACE TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 11,578	\$ 3,528
2004	14,557	None
2005	11,707	None
2006	8,909	None
2007	11,989	862
2008	12,745	1,720

ALSACE TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Alsace Township Nonuniformed Pension Plan
Berks County
65 Woodside Avenue
Temple, PA 19560

Mr. Joseph Williams Chairman, Board of Township Supervisors

Ms. Jane Bender Chief Administrative Officer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.