

BUSHKILL TOWNSHIP NONUNIFORMED PENSION PLAN

NORTHAMPTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 Bushkill 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.

During the audit period, the Bushkill Township Nonuniformed Pension Plan was a single-employer defined contribution pension plan locally controlled by the provisions of Resolution 1996-09, as amended. Active members were not required to contribute to the plan. The municipality was required to contribute 10 percent of each member's compensation in 2005 and 2006, and 15 percent of each member's compensation in 2007.

Bushkill Township adopted Ordinance No. 2008-02, effective January 1, 2008, which converted the Bushkill Township Nonuniformed Pension Plan from a defined contribution pension plan to a defined benefit pension plan.



Board of Township Supervisors
Bushkill Township
Northampton County
Nazareth, PA 18064

We have conducted a compliance audit of the Bushkill Township Nonuniformed Pension Plan for the period January 1, 2005, to December 31, 2007. 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 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 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 Bushkill 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 Bushkill 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 finding further discussed later in this report:

Finding – Allocation Of State Aid In Excess Of Entitlement

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 Bushkill Township and, where appropriate, their responses have been included in the report.

September 29, 2008

JACK WAGNER
Auditor General

BUSHKILL TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Bushkill Township has complied with the prior audit recommendation concerning the following:

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

The township reimbursed \$3,443 to the Commonwealth for the overpayment of state aid.

Rescission Of Prior Audit Recommendation

The following prior audit recommendation has been rescinded:

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Effective January 1, 2008, the township converted the nonuniformed pension plan from a defined contribution pension plan to a defined benefit pension plan; therefore, the excess municipal contributions were used to decrease the actuarial accrued liability of the defined benefit pension plan.

BUSHKILL TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2005, the township allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

State aid allocation	\$ 39,360
Less: Actual municipal pension costs	<u>(37,527)</u>
Excess state aid	<u>\$ 1,833</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 plan 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: Municipal officials failed to reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that, since 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. The township does have the option to allocate the excess state aid to its police pension plan. If this option is not selected, the overpayment of state aid in 2005, in the total amount of \$1,833, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that municipal officials either allocate the \$1,833 of excess state aid to their police pension plan or return it to the Commonwealth. 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

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

BUSHKILL TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 23,746	\$ 2,277
2003	25,614	3,744
2004	32,281	3,738
2005	39,360	None
2006	29,806	7,276
2007	37,048	17,579



BUSHKILL TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Bushkill Township Nonuniformed Pension Plan
Northampton County
1114 Bushkill Center Road
Nazareth, PA 18064

Mr. Brien Kocher Chairman, Board of Township Supervisors

Mr. Aaron J. Hook Secretary/Treasurer

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.