

**CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN**

**BERKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





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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 Cumru 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.

The Cumru Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 616 and a separately executed plan agreement. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees.



Board of Township Commissioners  
Cumru Township  
Berks County  
Mohnton, PA 19540

We have conducted a compliance audit of the Cumru Township Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2009. 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 finding 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. Cumru Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those 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 Cumru Township Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. 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 Cumru 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 – Noncompliance With Prior Audit Recommendation –  
Inconsistent Membership Eligibility Provision

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In  
An Overpayment 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 Cumru Township and, where appropriate, their responses have been included in the report.

February 25, 2011

JACK WAGNER  
Auditor General

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Cumru Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Membership Eligibility Provision

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Membership Eligibility Provision

Condition: As disclosed in the prior audit report, the pension plan’s governing document, which adopts a separately executed plan agreement, contains a membership eligibility provision that appears to conflict with the intent of the collective bargaining agreement (CBA) between the township and its nonuniformed employees, as noted below:

Plan Provision	Separately Executed Plan Agreement	Collective Bargaining Agreement
Membership eligibility	Completion of 1 year of eligibility service. Eligibility year of service means an eligibility computation period during which the employee completes at least 1,000 hours of service with the employer.	The CBAs covering the periods January 1, 2005, to December 31, 2008, and January 1, 2009, to December 31, 2012, between the township and the nonuniformed employees no longer reference a provision that probationary employees (new hires and rehired employees) shall not be eligible to participate in the pension program until the completion of one-year of service, including their probationary period, which specifically appeared in the CBA covering the period January 1, 2001, to December 31, 2004. The revised CBA references a probationary period of 6 months, but is silent as to a probationary employee’s rights under the pension plan.

Criteria: A governing document which contains clearly defined and updated eligibility and benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: There was confusion regarding a proposed restatement to the plan’s governing document which would have effectively removed the one-year waiting period effective January 1, 2008, that was prepared and submitted to the township by the plan consultant for review, approval and adoption in December 2008. However, there was no evidence that the proposed amendment was ever submitted to municipal officials for formal approval and enactment through a properly executed ordinance.

Effect: The inconsistent membership eligibility provision could result in incorrect or inconsistent plan entry dates, benefit calculations and benefit payments. In addition, the inclusion of a waiting period in the plan’s governing document resulted in the township including incorrect data on the Certification Forms AG 385 filed for the years 2008, 2009 and 2010, as noted in Finding No. 2 contained in this audit report.

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent membership eligibility requirements at their earliest opportunity to do so.

Management’s Response: Municipal officials agreed with the finding without exception. Township officials met with their solicitor and arranged a plan restatement ordinance to be advertised at the April 22, 2011, Board of Commissioners’ meeting. Additionally, officials indicated that a “meet and discuss” was held with a Teamsters Union representative about the corrections needed to the plan’s governing document.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

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

Condition: The township certified an ineligible nonuniformed employee (1 unit) and overstated payroll by \$19,817 in 2008, and certified an ineligible nonuniformed employee (1 unit) and overstated payroll by \$22,281 in 2009 on Certification Form AG 385. In addition, the township certified 3 ineligible nonuniformed employees (3 units) and overstated payroll by \$124,668 in 2010 on Certification Form AG 385.

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Furthermore, as noted in Finding No. 1 contained in this audit report, the plan’s governing document contains a waiting period for plan membership eligibility.

Cause: There was confusion regarding a proposed restatement to the plan’s governing document which would have effectively removed the one-year waiting period effective January 1, 2008, that was prepared and submitted to the township by the plan consultant for review, approval and adoption in December 2008. However, there was no evidence that the proposed amendment was ever submitted to municipal officials for formal approval and enactment through a properly executed ordinance.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the township for distribution to its pension plans. Because the township’s state aid allocations were based on unit value, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2008	1	\$ 3,186	\$ 3,186
2009	1	\$ 3,128	3,128
2010	3	\$ 3,235	<u>9,705</u>
Total Overpayment of State Aid			<u><u>\$ 16,019</u></u>

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the nonuniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$16,019, be returned 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 pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from nonuniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Municipal officials agreed with the finding without exception. Township officials met with their solicitor and arranged a plan restatement ordinance to be advertised at the April 22, 2011, Board of Commissioners' meeting. Additionally, officials indicated that a "meet and discuss" was held with a Teamsters Union representative about the corrections needed to the plan's governing document.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the township in the amount of \$16,019. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-05	\$ 1,296,995	\$ 1,537,686	\$ 240,691	84.3%	\$ 909,778	26.5%
01-01-07	1,617,927	1,844,162	226,235	87.7%	1,005,855	22.5%
01-01-09	1,653,657	2,357,051	703,394	70.2%	1,378,173	51.0%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 42,383	104.6%
2005	76,846	100.0%
2006	73,997	100.0%
2007	76,187	100.0%
2008	81,038	100.0%
2009	92,186	100.0%

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	17 years
Asset valuation method	Plan assets are valued using the method used in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.

Actuarial assumptions:

Investment rate of return *	7.5%
Projected salary increases *	4.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

CUMRU TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Cumru Township Nonuniformed Pension Plan  
Berks County  
1775 Welsh Road  
Mohnton, PA 19540

Mr. Barry Rohrbach      President, Board of Township Commissioners

Ms. Jeanne Johnston      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](http://www.auditorgen.state.pa.us).