

**EARL TOWNSHIP NONUNIFORMED PENSION PLAN**

**LANCASTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, 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 Earl 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 Earl Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 03-2007, effective January 1, 2007. Prior to January 1, 2007, the plan was controlled by Ordinance No. 05-2003. Active members are not required to contribute to the plan. For the year 2007, the municipality was required to contribute 10 percent of each member's participation payroll, plus forfeitures. For the year 2006, the township was required to contribute 10 percent of each member's previous year's participation payroll plus forfeitures and then allocate to each person who was an active member at any time during the fiscal year an amount equal to the contributions and forfeitures multiplied by the ratio of each member's annual pay to the total annual pay of all eligible members.



Board of Township Supervisors  
Earl Township  
Lancaster County  
New Holland, PA 17557

We have conducted a compliance audit of the Earl Township Nonuniformed Pension Plan for the period January 1, 2006, 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 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.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Earl 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 Earl 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 – Failure To Properly Fund Member  
Accounts

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

October 15, 2008

JACK WAGNER  
Auditor General

EARL TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Earl 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 \$3,088 to the Commonwealth for the overpayment of state aid.

EARL TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Member Accounts

Condition: The township did not fully fund the accounts of 5 members in 2006 and 7 members in 2007 in the amounts of \$5,398 and \$5,437, respectively, as illustrated below:

<u>2006 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 5,039	\$ 3,927	\$ 1,112
2	6,880	5,682	1,198
3	6,698	5,785	913
4	6,970	5,674	1,296
5	4,586	3,707	879
		Total	<u>\$ 5,398</u>
<u>2007 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 4,562	\$ 4,242	\$ 320
2	6,329	5,808	521
3	6,191	5,663	528
4	6,021	5,891	130
5	4,248	3,881	367
6	2,184	1,087	1,097
7	3,705	1,231	2,474
		Total	<u>\$ 5,437</u>

Furthermore, the township allocated \$930 to an employee who terminated employment in 2006 and was not eligible for plan membership.

Criteria: In 2006, the plan’s governing document, Ordinance No. 05-03, which adopted a separately executed plan agreement with the plan’s custodian, established the municipal contribution rate at 10 percent of previous year’s participation payroll plus forfeitures and then an allocation to each employee who was an active member at any time during the fiscal year in an amount equal to the contributions and forfeitures multiplied by the ratio of each member’s annual pay to the total annual pay of all eligible members. For 2007, the plan’s governing document was restated by Ordinance No. 03-07, and establishes the municipal contribution rate at a fixed 10 percent of current year participation payroll plus forfeitures.

EARL TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure that only eligible plan members' accounts were properly funded in accordance with the provisions contained in the plan's governing documents.

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document. In addition, the township contributed \$930 to an employee who was not eligible to participate in the pension plan prior to the employee's termination in 2006.

Furthermore, due to the township's failure to properly fund the accounts of several members, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contributions due to the members' accounts for the years 2006 and 2007, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend the township review the improper contribution made in 2006 to the ineligible employee with the plan's consultant to determine if the plan can be reimbursed for the unauthorized contribution.

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

Management's Response: Municipal officials will respond upon receipt of the audit report.

EARL TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 19,341	\$ 3,666
2003	20,261	7,658
2004	23,291	5,866
2005	20,487	8,003
2006	21,620	4,134
2007	19,238	8,545

EARL TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Earl Township Nonuniformed Pension Plan  
Lancaster County  
517 North Railroad Avenue  
New Holland, PA 17557

Mr. Richard L. Kochel      Chairman, Board of Township Supervisors

Ms. Brenda Becker      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).