

FALLOWFIELD TOWNSHIP NONUNIFORMED UNION PENSION PLAN

WASHINGTON 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 Fallowfield Township Nonuniformed Union 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.

As further described in the Letter from the Auditor General included in this report, the township's nonuniformed employees participate in the Steelworkers Pension Trust. The Fallowfield Township Nonuniformed Union Pension Plan is locally controlled by the provisions of Resolution No. 316. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees. Active members are not required to contribute to the plan. The agreement between the municipality and the Steelworkers Pension Trust provides for the following required contributions:

Effective 1-1-2005	\$1.05 per hour per employee
Effective 1-1-2006	\$1.10 per hour per employee
Effective 1-1-2007	\$1.20 per hour per employee



Board of Township Supervisors
Fallowfield Township
Washington County
Charleroi, PA 15022

We have conducted a compliance audit of the Fallowfield Township Nonuniformed Union 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 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. The township's nonuniformed union employees participate in the Steelworkers Pension Trust, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Fallowfield Township Nonuniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Fallowfield Township Nonuniformed Union 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 Fallowfield Township Nonuniformed Union 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 Fallowfield Township and, where appropriate, their responses have been included in the report.

August 14, 2008

JACK WAGNER
Auditor General

FALLOWFIELD TOWNSHIP NONUNIFORMED UNION PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

· Allocation Of State Aid In Excess Of Entitlement

The \$12,934 of excess state aid allocated to the nonuniformed pension plan was deposited into the police pension plan.

FALLOWFIELD TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2005 and 2006, the township allocated state aid to the nonuniformed union pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

	<u>2005</u>	<u>2006</u>
State aid allocation	\$ 10,089	\$ 11,278
Less: Actual municipal pension costs	(9,588)	(10,648)
Excess state aid	\$ 501	\$ 630

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: Plan officials have failed to adopt adequate internal control procedures to ensure that the amount of state aid allocated to the union pension plan does not exceed 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 defined benefit pension plan. If this option is not selected, the overpayments of state aid in 2005 and 2006, in the total amount of \$1,131, must be returned to the Commonwealth for redistribution.

FALLOWFIELD TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that municipal officials either allocate the \$1,131 of excess state aid to their defined benefit 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.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan with the pension plan's actual defined contribution pension costs.

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

FALLOWFIELD TOWNSHIP NONUNIFORMED UNION PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 5,719	\$ 3,402
2003	10,558	None
2004	9,770	None
2005	10,089	None
2006	11,278	None
2007	12,196	None

FALLOWFIELD TOWNSHIP NONUNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Fallowfield Township Nonuniformed Union Pension Plan
Washington County
9 Memorial Drive
Charleroi, PA 15022

Mr. Herman L. Pennline Chairman, Board of Township Supervisors

Ms. Bonnie Mraz Secretary

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.