

HARRIS TOWNSHIP NONUNIFORMED PENSION PLAN

CENTRE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2009



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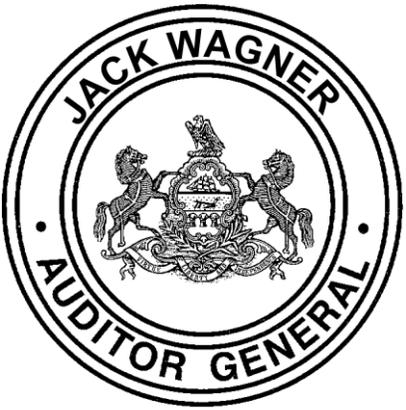
BACKGROUND

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 Harris 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 Harris Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 03-05. Active members are not required to contribute to the plan. The municipality is required to contribute 7.65 percent of each member's earnings.



Board of Township Supervisors
Harris Township
Centre County
Boalsburg, PA 16827

We have conducted a compliance audit of the Harris Township Nonuniformed Pension Plan for the period January 1, 2009, 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 this objective.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Harris 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Harris 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 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The Plan

We also noted a matter that has been included in the following observation further discussed later in this report:

Observation – Absence Of Measures Necessary To Ensure An Effective
Transition Of Duties

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

March 16, 2011

JACK WAGNER
Auditor General

HARRIS TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: In 2009, the township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

Actual municipal pension costs	\$	32,525
State aid allocated		(28,152)
Municipal contributions required to fund plan	\$	4,373
Actual municipal contributions made	\$	32,525
Municipal contributions required to fund plan		(4,373)
Excess municipal contributions	\$	28,152

Criteria: Section IV of the ICMA Adoption Agreement states, in part:

The Employer shall contribute on behalf of each participant 7.65% of earnings for the plan year.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: Plan officials initially deposited the correct amount of municipal contributions into the pension plan; however, when the township received its state aid allocation, plan officials also deposited the state aid allocation into the pension plan instead of reimbursing the township’s general fund for the municipal contributions previously made. Therefore, the township did not have adequate internal control procedures in place to ensure that the contributions made to the plan and allocated to the members’ accounts would not exceed the required contributions outlined in the plan’s governing document.

Effect: The municipality allocated funds to the members’ accounts in excess of the defined contribution percentage rate contained in the plan’s governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan’s governing document.

HARRIS TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the excess municipal contributions maintained in the members' accounts at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

We also recommend that plan officials establish and implement adequate internal control procedures to ensure that the amount of state aid allocated to the pension plan and municipal contributions made to the pension plan do not exceed the contributions required to fund the plan.

Management's Response: Plan officials have been in consultation with the township's solicitor to determine an appropriate course of action regarding the excess municipal contributions made to the plan.

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

HARRIS TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	None	\$ 28,728
2007	None	29,787
2008	None	32,577
2009	\$ 28,152	\$ 32,525

HARRIS TOWNSHIP NONUNIFORMED PENSION PLAN
OBSERVATION

Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

Plan officials have not prepared management guidelines which describe the duties and responsibilities of municipal and plan officials in the operation of the nonuniformed pension plan.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected and delayed and investment opportunities may be lost.

The township should consider preparing a written operations manual which describes, in detail, the duties of municipal and plan officials responsible for the operation of the pension plan. This manual should be kept on file with other important plan documents.

HARRIS TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Harris Township Nonuniformed Pension Plan
Centre County
224 E. Main Street
Boalsburg, PA 16827

Mr. Cliff Warner	Chairman, Board of Township Supervisors
Ms. Amy Farkas	Township Manager
Mr. Walter Cheatle	Finance Director

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.