

LOWER HEIDELBERG TOWNSHIP NONUNIFORMED PENSION PLAN

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, 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 Lower Heidelberg 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 Lower Heidelberg Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution effective January 1, 1986, as amended, and a separately executed plan agreement with the plan's custodian. 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 municipality is required to contribute 10 percent of each member's annual compensation.



Board of Township Supervisors
Lower Heidelberg Township
Berks County
Sinking Spring, PA 19608

We have conducted a compliance audit of the Lower Heidelberg Township Nonuniformed Pension Plan for the period January 1, 2007, 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 Lower Heidelberg 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 Lower Heidelberg 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 Members’ 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 Lower Heidelberg Township and, where appropriate, their responses have been included in the report.

August 16, 2010

JACK WAGNER
Auditor General

LOWER HEIDELBERG TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Members’ Accounts

Condition: The township did not properly fund the accounts of 2 members in 2007, one of whom terminated employment on January 31, 2007, and was 60 percent vested in her account balance, and 2 members in 2008, as illustrated below:

<u>2007</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Contributions</u> <u>Due/(Excess)</u>
1	\$ 461	\$ -	\$ 461
2	4,888	5,133	<u>(245)</u>
		Total	<u>\$ 216</u>

<u>2008</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Contributions</u> <u>Due</u>
1	\$ 1,333	\$ 704	\$ 629
2	6,020	5,500	<u>520</u>
		Total	<u>\$ 1,149</u>

Criteria: The plan agreement with the plan’s custodian establishes the municipal contribution rate at 10 percent of annual payroll.

Furthermore, the plan agreement specifies that employee forfeitures shall be used to offset the first municipal contribution due after the forfeiture is determined.

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

Effect: The failure to properly fund the members’ accounts could result in plan members receiving incorrect benefit payments upon reaching retirement benefit eligibility. Furthermore, due to the township’s failure to properly fund certain members’ accounts, the township must now pay interest on the delinquent contributions.

LOWER HEIDELBERG TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the township review the accounts of all plan members to ensure that they are being funded properly and deposit any contributions due to the members' accounts for the years 2007 and 2008, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

Furthermore, since the terminated plan member was only 60 percent vested in her account balance, the remaining 40 percent of her account balance should be considered a forfeiture and utilized to offset the next required municipal contribution due.

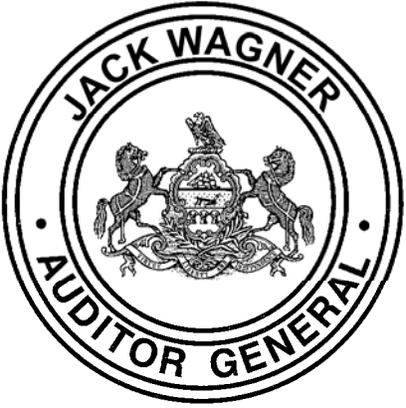
We also recommend that township officials establish adequate internal control procedures to ensure the accounts of all plan members are properly funded.

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

LOWER HEIDELBERG TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 4,993	\$ 10,329
2005	3,600	9,484
2006	5,967	8,484
2007	8,477	6,476
2008	7,877	10,785
2009	14,542	12,346



LOWER HEIDELBERG TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Lower Heidelberg Township Nonuniformed Pension Plan
Berks County
720 Brownsville Road
Sinking Spring, PA 19608

Ms. Kim Reifsnyder Chairman, Board of Township Supervisors

Ms. Karen M. Hain 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.