



**LOWER CHICHESTER TOWNSHIP
NON-UNIFORMED PENSION PLAN**

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Commissioners
Lower Chichester Township
Delaware County
Linwood, PA 19061

We have conducted a compliance audit of the Lower Chichester Township Non-Uniformed Pension Plan for the period January 1, 2010, to December 31, 2012. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 the objective identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2007, to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2007, to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether transfers were properly authorized, accurate, timely and properly recorded.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Chichester Township Non-Uniformed 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our tests indicated that, in all significant respects, the Lower Chichester Township Non-Uniformed 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 – Untimely Deposit Of State Aid

Finding No. 2 – Failure To Properly Deduct And Timely Deposit Member Contributions

The contents of this report were discussed with officials of Lower Chichester Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

October 15, 2013



EUGENE A. DEPASQUALE
Auditor General

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Chichester Township Non-Uniformed 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 Chichester Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 92-13, as amended. Active members are required to contribute 3 percent of compensation to the plan. The municipality is required to contribute 6 percent of each participant's compensation. As of December 31, 2012, the plan had 5 active members and 4 terminated members eligible for vested benefits in the future.

LOWER CHICHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit the non-uniformed pension plan’s share of its 2011 and 2012 state aid allocations within the 30 day grace period allowed by Act 205. The municipality received its 2011 and 2012 state aid allocations in the amounts of \$35,933 and \$38,698, respectively, on October 4, 2011, and September 28, 2012, but did not deposit the non-uniformed pension plan’s share until December 29, 2011 and December 3, 2012.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the state allocations were deposited timely in accordance with Act 205 requirements.

Effect: Although the state aid was deposited into the non-uniformed pension plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the non-uniformed pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited into the pension plan in accordance with Act 205 requirements.

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

LOWER CHICHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Properly Deduct And Timely Deposit Member Contributions

Condition: Municipal officials failed to properly deduct member contributions for 2 plan members during 2010 and 3 plan members during the years 2011 and 2012. The table below illustrates the member contributions due to the plan:

2010

<u>Employee Hire Date</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
05/31/2005	\$ 1,292	\$ 931	\$ 361
09/20/2005	739	623	116
		Total	<u>\$ 477</u>

2011

<u>Employee Hire Date</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
05/31/2005	\$ 1,108	\$ 850	\$ 258
09/20/2005	347	301	46
07/05/2010	822	640	182
		Total	<u>\$ 486</u>

2012

<u>Employee Hire Date</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
05/31/2005	\$ 1,265	\$ 957	\$ 308
09/20/2005	769	667	102
07/05/2010	806	627	179
		Total	<u>\$ 589</u>

LOWER CHICHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, member contributions which were deducted were not timely deposited. Member contributions in the amounts of \$1,513, \$4,465, and \$2,449 for the years 2010, 2011 and 2012, respectively, were not deposited until December 22, 2011, April 3, 2012 and February 11, 2013.

Criteria: Resolution No. 92-13, Section 3.06 states:

Members shall pay into the fund at a rate of three percent (3%) of compensation on the last day of each pay period....

Cause: Plan officials failed to establish adequate internal control procedures to ensure that all member contributions were deducted and deposited timely.

Effect: Insufficient member contributions could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that the delinquent member contributions be deposited into the pension plan and interest be paid on the member contributions that were deposited untimely. We also recommend that plan officials establish adequate internal control procedures to ensure future member contributions are properly deducted and deposited timely into the pension plan.

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

LOWER CHICHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2007	\$ 10,783	\$ 2,743
2008	11,026	3,836
2009	12,754	52
2010	10,792	None
2011	13,896	747
2012	9,722	6,642

LOWER CHICHESTER TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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Mr. Rocco Gaspari, Jr. President, Board of Township Commissioners

Mr. Joseph Possenti, Jr. Township Manager

This report is a matter of public record and is available online at www.auditorgen.state.pa.us.
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