

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



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ABBREVIATION

PERC - Public Employee Retirement Commission

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 Newport 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 Newport Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a resolution dated October 12, 1992.



Board of Township Commissioners
Newport Township
Luzerne County
Nanticoke, PA 18634

We have conducted a compliance audit of the Newport 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings 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 Newport 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 Newport 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 findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Incorrect Data Supplied To Actuary For Actuarial Valuation
Report Preparation

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure
To Hold Pension Board Meetings

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

November 24, 2008

JACK WAGNER
Auditor General

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Newport Township has complied with the prior audit recommendations concerning the following:

- Improper And Undocumented Loan To The General Fund

During 2006 and 2007, the township reimbursed the nonuniformed pension plan the outstanding loan balance due plus applicable interest;

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The township reimbursed \$20,997 to the Commonwealth for the overpayment of state aid; and

- Failure To Prepare Financial Statements

The township established and implemented procedures to ensure the preparation of annual financial statements.

Noncompliance With Prior Audit Recommendations

Newport Township has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

- Failure To Hold Pension Board Meetings.

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied
To Actuary For Actuarial Valuation Report Preparation

Condition: As disclosed in the prior audit report, the actuarial valuation report forms 202C submitted to PERC contained incorrect information.

During the current audit period, actuarial valuation report form 202C, with a valuation date of January 1, 2007, submitted to PERC, also contained incorrect information. The information was based on data supplied by the municipality to the plan's actuary.

The municipality supplied the following incorrect information to the plan's actuary:

- A provision for a nonservice-related disability benefit that is not included in the plan's governing document;
- Incorrect demographic data concerning the number of employees and the amount of covered payroll; and
- Incorrect information regarding eligibility for the early retirement benefit. The actuarial valuation reports reflect eligibility requirements of age 55 and 10 years of service, whereas the governing document requires age 55 and 20 years of service.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: The discrepancies in the data submitted to the plan's actuary occurred because plan officials did not verify that the information was consistent with the plan's governing document. In addition, plan officials failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the actuary may have resulted in the municipality receiving an incorrect allocation of state aid.

In addition, since the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO), the incorrect data may have resulted in an erroneous MMO calculation.

Recommendation: We again recommend that plan officials consult with their actuary to determine if a revised actuarial valuation report must be prepared. If a revised report is prepared and accepted by PERC, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

We also recommend that if a revised actuarial valuation report is prepared and accepted by PERC, the chief administrative officer of the pension plan recalculate the MMO and make any necessary deposit to the plan, with interest in accordance with Section 302(e) of Act 205. Furthermore, any state aid received by the township attributable to the erroneous actuarial data must be refunded to the Commonwealth, with interest at a rate earned by the plan.

Finally, we again recommend that, in the future, plan officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

Management's Response: The township indicated that the errors have been corrected and will not occur again.

Auditor's Conclusions: Compliance will be subject to verification during our next audit of the plan.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Hold Pension Board Meetings

Condition: As disclosed in the prior audit report, the retirement board has not held periodic meetings in order to review investment performance and conduct other pension plan business.

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: The resolution dated October 10, 1992, at Section 726(1) and (3), states in part:

A retirement board is hereby established which shall have general responsibility for the administration and interpretation of the plan.... The retirement board shall consist of five (5) members.

Cause: Municipal officials have failed to properly carry out their fiduciary responsibilities regarding the administration of the nonuniformed pension plan. In addition, plan officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Since nonuniformed pension plan board meetings are not being held, the activity of the nonuniformed pension plan is not being adequately monitored.

Recommendation: We again recommend that the nonuniformed pension plan board hold periodic meetings to properly execute its responsibilities as outlined in Section 726 of the plan's governing resolution.

Management's Response: The township indicated that the finding recommendation is in the process of being corrected through an amendment to the plan's governing document. The term "Pension Board" will be replaced by "Township Commissioners" which will allow for the proper meetings to take place in conjunction with the regularly scheduled meetings of the Board of Township Commissioners.

Auditor's Conclusions: Based on the management response, it appears that municipal officials intend to comply with the finding recommendation. Compliance will be subject to verification during our next audit of the plan.

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 130,991	\$ 205,622	\$ 74,631	63.7%	\$ 130,240	57.3%
01-01-05	177,254	231,444	54,190	76.6%	125,434	43.2%
01-01-07	241,607	278,441	36,834	86.8%	100,350	36.7%

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	\$ 17,245	100.8%
2003	20,244	100.0%
2004	25,990	100.1%
2005	27,321	102.8%
2006	24,015	100.0%
2007	21,268	104.0%

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	5 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

NEWPORT TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Newport Township Nonuniformed Pension Plan
Luzerne County
1002 Center Street
Nanticoke, PA 18634

Mr. Paul Czapracki President, Board of Township Commissioners

Mr. Richard V. Zika Township Manager

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.