



**PALMYRA TOWNSHIP NON-UNIFORMED
PENSION PLAN**

PIKE 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 Supervisors
Palmyra Township
Pike County
Paupack, PA 18451

We have conducted a compliance audit of the Palmyra 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 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- 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 the terms of the unallocated insurance contract, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

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

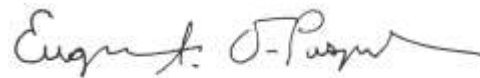
The results of our tests indicated that, in all significant respects, the Palmyra Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Improper Withdrawal Of Benefit Provision Contained In The
Plan Agreement
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation –
Failure To Properly Fund Members' Accounts
- Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Palmyra 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.

July 23, 2013



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status Of Prior Findings.....	2
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Withdrawal Of Benefit Provision Contained In The Plan Agreement	3
Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts.....	4
Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement	5
Supplementary Information	7
Report Distribution List	8

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 Palmyra 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 Palmyra Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 107-2008. The plan is also affected by the provisions of employment contracts between the township and its non-uniformed employees. Active members are required to contribute from 1 percent to 15 percent of their compensation to the plan. The municipality is required to contribute 3 percent of each member's compensation. As of December 31, 2012, the plan had 4 active members, no terminated members eligible for vested benefits in the future and no retirees receiving pension benefits.

PALMYRA TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

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

During the current audit period, township officials established adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

Partial Compliance With Prior Audit Recommendation

Palmyra Township has partially complied with the prior audit recommendation concerning the following:

- Improper Funding Of Members' Accounts

During the current audit period, the township reviewed the individual members' accounts with the plan's consultant and made the adjustments necessary to ensure that the members' accounts were properly funded for the years 2008 and 2009 in accordance with the provisions contained in the plan's governing document. However, the township improperly funded the members' accounts in the year 2010 as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

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

- Improper Withdrawal Of Benefit Provision Contained In The Plan Agreement

PALMYRA TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Withdrawal Of
Benefit Provision Contained In The Plan Agreement

Condition: As disclosed in the prior audit report, Article V, Section 5.04 of the pension plan’s agreement, adopted November 5, 2008, improperly contains a provision that allows a participant to withdraw any part of their vested account balance resulting from his employer contributions and his voluntary contributions.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not for withdrawals or loans to plan members prior to their retirement benefit eligibility.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Distribution of plan assets prior to retirement violates the purpose for which state aid was allocated to the municipality and undermines the integrity of the pension plan.

Recommendation: We again recommend that municipal officials take appropriate action to eliminate the unauthorized withdrawal provisions at their earliest opportunity to do so.

Management’s Response: Municipal officials indicated that they would provide a written response to the department within 10 working days; however, no such response has been provided.

Auditor’s Conclusion: Compliance will be subject to verification through our next audit of the plan.

PALMYRA TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts

Condition: As disclosed in the prior audit report, the township improperly funded the accounts of 4 members in 2008 and 2 members in 2009. During the current audit period, the township reviewed the individual members’ accounts with the plan’s consultant and made the adjustments necessary to ensure that the members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

However, during the current audit period, the township did not fully fund the accounts of 4 members in 2010, as illustrated below:

<u>Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,697	\$ 1,630	\$ 67
2	1,660	1,407	253
3	1,009	926	83
4	1,537	1,379	158
		Total	<u>\$ 561</u>

Criteria: The plan’s governing document, Ordinance No. 107-2008, which adopts a separately executed plan agreement with the plan’s custodian, establishes the municipal contribution rate at 3 percent of the participant’s monthly compensation. Furthermore, compensation is defined as total earnings or the type of compensation that is reported in the “Wages, Tips and Other Compensation” box on the Form W-2.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Furthermore, due to the township’s failure to properly fund the members’ accounts, the township must now pay interest on the delinquent contributions.

PALMYRA TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the township review the applicable members' accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

Management's Response: Municipal officials indicated that they would provide a written response to the department within 10 working days; however, no such response has been provided.

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

Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan's defined contribution pension costs in the year 2011, as illustrated below:

State aid allocation	\$ 4,205
Actual municipal pension costs	<u>(2,829)</u>
Excess state aid	<u>\$ 1,376</u>

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 plans 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 failed to establish adequate internal control procedures to reconcile the township's state aid allocation with the plan's actual defined contribution pension costs.

PALMYRA TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: It is this department's opinion that because 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. Consequently, the overpayment of state aid received in the year 2011 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$1,376 of excess state aid received in the year 2011 to the Commonwealth from the township's general fund. 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that in the future, plan officials reconcile the township's annual state aid allocation and municipal contributions made to the pension plan with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

Management's Response: Municipal officials indicated that they would provide a written response to the department within 10 working days; however, no such response has been provided.

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

PALMYRA TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2007	\$ 2,484	\$ 403
2008	2,566	2,361
2009	3,928	1,334
2010	4,184	1,158
2011	2,829	1,572
2012	2,829	3,528

PALMYRA TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Palmyra Township Non-Uniformed Pension Plan
Pike County
115 Buehler Lane
Paupack, PA 18451

Mr. Thomas A. Simons Chairman, Board of Township Supervisors

Ms. JoAnn M. Rose Chief Administrative Officer

This report is a matter of public record and is available online at www.auditorgen.state.pa.us.
Media questions about the report can be directed to the Pennsylvania Department of the Auditor
General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to:
news@auditorgen.state.pa.us.