

**RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN**

**BERKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





**RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN**

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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 Richmond 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Richmond Township Nonuniformed Pension Plan is a single-employer defined contribution money purchase pension plan locally controlled by the provisions of Resolution No. 12-2008, adopted pursuant to Act 69. Active members are not required to contribute to the plan. The municipality is required to contribute 15 percent of each participant's compensation.



Board of Township Supervisors  
Richmond Township  
Berks County  
Fleetwood, PA 19522

We have conducted a compliance audit of the Richmond Township Nonuniformed Pension Plan for the period January 1, 2008, 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 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 effective internal controls to provide reasonable assurance that the Richmond 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 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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Richmond 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 – Failure To Properly Fund Members’ Accounts

Finding No. 2 – Failure To Timely File Actuarial Valuation Report

Finding No. 3 – Unauthorized Withdrawal Of Funds

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

October 14, 2010

JACK WAGNER  
Auditor General

RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- Failure To Appoint A Chief Administrative Officer

The township secretary was appointed as the chief administrative officer of the pension plan;  
and

- Unauthorized Funding Mechanism

In 2008, the township transferred the pension plan's assets from ineligible individual retirement accounts (IRAs) to an authorized money purchase pension plan.

RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Properly Fund Members’ Accounts

Condition: The township did not fully fund the accounts of 2 members in 2007 and 2008 in the amounts of \$2,235 and \$188, respectively, as illustrated below:

<u>2007 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 5,869	\$ 4,566	\$ 1,303
2	4,014	3,082	932
		Total	<u>\$ 2,235</u>

<u>2008 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	6,117	6,002	\$ 115
2	4,300	4,227	73
		Total	<u>\$ 188</u>

Criteria: The employer contribution rate was established at 15 percent of pay.

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 being denied a benefit to which they are entitled in accordance with the plan’s governing document.

Furthermore, due to the township’s failure to properly fund the accounts of these 2 members, the township must now pay interest on the delinquent contributions.

RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the township deposit the outstanding contributions due to 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.

We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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

Finding No. 2 – Failure To Timely File Actuarial Valuation Report

Condition: Actuarial valuation report form PC-203A, with a valuation date of January 1, 2009, was not submitted to the Public Employee Retirement Commission (PERC) by the March 31, 2010, deadline as required by Act 205. The report was not submitted to PERC until September 16, 2010.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure the actuarial valuation report was filed timely in accordance with Act 205 requirements.

Effect: The township received its state aid allocation later than municipalities that filed their actuarial valuation reports timely.

Recommendation: We recommend that plan officials implement adequate internal control procedures to ensure that future actuarial valuation reports are filed timely in accordance with Act 205 requirements.

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

Finding No. 3 – Unauthorized Withdrawal Of Funds

Condition: In 2009, an active plan participant improperly withdrew \$10,000 from his account balance of \$97,253 maintained in the township’s nonuniformed money purchase plan. The plan member was 100 percent vested in his account balance and 68 years of age. However, this withdrawal is specifically prohibited by the plan document.

Criteria: Section 35(a) of the separately executed money purchase plan agreement adopted by Resolution No. 12-2008, states that in-service distributions are not permitted.

In addition, 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.

RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments and not to be used for distributions to active members of a pension plan prior to their retirement benefit eligibility.

Cause: The assets were previously held in an ineligible IRA account which did allow for this type of withdrawal; however, when the assets were transferred to the current money purchase plan, the plan document was changed and specifically prohibited account distributions prior to retirement.

Furthermore, plan officials failed to establish adequate internal control procedures to ensure that the provisions contained in the current plan document were enforced.

Effect: Distributions from pension plan contracts prior to retirement violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of an annuitant and undermines the integrity of the pension plan.

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure that all distributions from the pension plan are made in accordance with the provisions contained in the plan's governing document.

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

Auditor's Conclusion: Compliance with the finding recommendation will be evaluated during our next audit of the plan. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future.

RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 5,823	\$ 3,040
2005	5,854	3,417
2006	5,787	3,509
2007	6,413	1,235
2008	None	10,229
2009	None	10,404

RICHMOND TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Richmond Township Nonuniformed Pension Plan  
Berks County  
11 Kehl Drive  
Fleetwood, PA 19522

Mr. Ronald Kutz	Chairman, Board of Township Supervisors
Mr. Donald Brumbach	Vice Chairman, Board of Township Supervisors
Ms. Sherry Combs	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](http://www.auditorgen.state.pa.us).