

**SOUTH FAYETTE TOWNSHIP NONUNIFORMED
MANAGEMENT PENSION PLAN**

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Finding and Recommendation:	
Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid	5
Supplementary Information	6
Report Distribution List	7

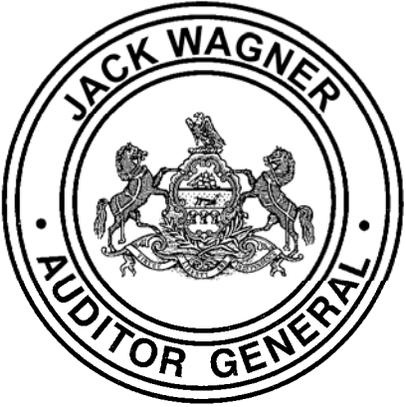
BACKGROUND

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 South Fayette Township Nonuniformed Management 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 South Fayette Township Nonuniformed Management Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 9 of 2001, as amended. Active members are not required to contribute to the plan. The municipality was required to contribute 10.09 percent of each member's compensation in 2007, 9.8 percent of each member's compensation in 2008, and 9.5 percent of each member's compensation in 2009.



Board of Township Commissioners
South Fayette Township
Allegheny County
Morgan, PA 15064

We have conducted a compliance audit of the South Fayette Township Nonuniformed Management 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 the objective identified above. South Fayette Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the South Fayette Township Nonuniformed Management 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 South Fayette Township Nonuniformed Management 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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

March 31, 2010

JACK WAGNER
Auditor General

SOUTH FAYETTE TOWNSHIP NONUNIFORMED MANAGEMENT PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The township failed to certify an eligible nonuniformed union employee (1 unit) in 2007 on Certification Form AG 385. In addition, the township certified 1 ineligible nonuniformed management employee (1 unit) and failed to certify all 12 eligible members of the nonuniformed union plan (12 units), a net effect of 11 units understated, in 2008 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that all of the township’s eligible employees were included on Certification Form AG 385.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the township for distribution to its pension plans. Because the township’s state aid allocations were based on unit value, the township received an underpayment of state aid of \$38,252 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2007	1	\$ 3,206	\$ 3,206
2008	11	\$ 3,186	<u>\$ 35,046</u>
Total Underpayment of State Aid			<u><u>\$ 38,252</u></u>

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification errors, the full amount of the 2007 and 2008 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that plan officials establish and implement adequate internal control procedures to ensure that all of the township’s employees who are eligible to be certified are included on Certification Form AG 385.

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

SOUTH FAYETTE TOWNSHIP NONUNIFORMED MANAGEMENT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 64,568	None
2005	None	\$ 63,309
2006	None	63,924
2007	None	58,864
2008	None	64,402
2009	None	64,216

SOUTH FAYETTE TOWNSHIP NONUNIFORMED MANAGEMENT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

South Fayette Township Nonuniformed Management Pension Plan
Allegheny County
515 Millers Run Road
Morgan, PA 15064

Mr. Thomas J. Sray President, Board of Township Commissioners

Mr. Michael W. Hoy 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.