

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN

FRANKLIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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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 Southampton 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 Southampton Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2004-11 and a separately executed plan agreement with the plan's custodian. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each eligible participant's compensation according to the provisions of the separately executed plan agreement.



Board of Township Supervisors
Southampton Township
Franklin County
Shippensburg, PA 17257

We have conducted a compliance audit of the Southampton Township Nonuniformed 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 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 this objective.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Southampton 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 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 Southampton 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 – Receipt And Allocation Of State Aid In Excess Of Entitlement

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 3 – Municipal Contributions Made In Excess Of Those Required To Fund The Plan

Finding No. 4 – Inconsistency Between Plan Documents

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

June 7, 2010

JACK WAGNER
Auditor General

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt And Allocation Of State Aid In Excess Of Entitlement

Condition: The township received and allocated state aid in excess of the nonuniformed pension plan’s defined contribution pension costs for full-time participating plan members in the years 2007 and 2008, as illustrated below:

	<u>2007</u>	<u>2008</u>
State aid allocation	\$ 22,445	\$ 22,229
Municipal pension costs for full-time plan members	<u>(22,229)</u>	<u>(18,793)</u>
Excess state aid	<u>\$ 216</u>	<u>\$ 3,436</u>

Criteria: Part A of Section 3 of the separately executed flexible money purchase plan agreement with the plan’s custodian states, in part:

For each plan year, the employer will contribute for each qualifying participant an amount equal to 10% of the qualifying participant’s compensation for the plan year.

Resolution No. 2004-11 further defines compensation as W-2 earnings excluding supervisor’s meeting pay.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

In addition, 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.

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

Cause: There was a recent turnover in plan officials and current officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan's actual defined contribution pension costs attributable to full-time participating plan members.

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 overpayments of state aid in the years 2007 and 2008, in the total amount of \$3,652, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$3,652 of excess state aid received in the years 2007 and 2008 to the Commonwealth from the pension plan. 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 amount of state aid allocated to the pension plan with the plan's defined contribution pension costs attributable to full-time plan members.

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

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified an ineligible nonuniformed employee (1 unit) and overstated payroll by \$41,620 in 2009 on Certification Form AG 385.

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

In addition, Parts A (1) and (2) and Parts B (3) and (4) of Section Two of the plan’s separately executed plan agreement with the plan’s custodian establishes membership eligibility criteria as noted below:

An employee will be eligible to become a participant in the plan...after attaining age 20; and

An employee will be eligible to become a participant in the plan...after completing ½ year of eligibility service;

1,000 hours of service shall be required to constitute a year of eligibility service; and

The entry date for participation shall be six months after the date the employee satisfies such requirements.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that only employees who met the plan’s membership eligibility requirements were certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township’s state aid allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
1	\$ 3,128	\$ 3,128

In addition, township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the nonuniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the overpayment of state aid, in the amount of \$3,128, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension 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 the check.

We also recommend that, in the future, plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from nonuniformed pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Finding No. 3 – Municipal Contributions Made In Excess Of Those Required To Fund The Plan

Condition: The township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2007</u>	<u>2008</u>	<u>Total</u>
Actual municipal contributions made	\$ 284	\$ 726	\$ 1,010
Municipal contributions required to fund plan	-	-	-
Excess municipal contributions	<u>\$ 284</u>	<u>\$ 726</u>	<u>\$ 1,010</u>

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Part A of Section 3 of the separately executed flexible money purchase plan agreement with the plan’s custodian states, in part:

For each plan year, the employer will contribute for each qualifying participant an amount equal to 10% of the qualifying participant’s compensation for the plan year.

Furthermore, Resolution No 2004-11 further defines compensation as W-2 earnings excluding supervisor’s meeting pay.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan’s governing document.

In addition, plan officials were unaware that municipal contributions were not authorized on supervisor’s meeting pay resulting in the excess contributions for 2007. For 2008, the excess contributions were for an employee who had not yet met the eligibility requirements for plan membership.

Effect: The municipality allocated funds to the members’ accounts in excess of the defined contribution rate contained in the plan’s governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan’s governing document.

It is the opinion of this department that the township’s failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the members’ accounts at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members’ accounts and be reimbursed to the township.

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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

Finding No. 4 – Inconsistency Between Plan Documents

Condition: There is an inconsistency between the pension plan's adoption agreement and Resolution No. 2004-11. Section 3 Part A of the adoption agreement states:

For each Plan Year the Employer will contribute for each Qualifying Participant an amount equal to 10 percent ...of the Qualifying Participant's Compensation for the Plan Year.

Resolution No. 2004-11 states, in part:

The township hereby restates the intended rates of employer contributions retroactive to January 1, 2004 to be 10% of compensation. Compensation is defined as W-2 earnings excluding supervisors meeting pay...As past practice, current year contributions are based on prior year compensation.

Criteria: The plan's adoption agreement and any governing resolution for the pension plan should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure consistency among the plan documents.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

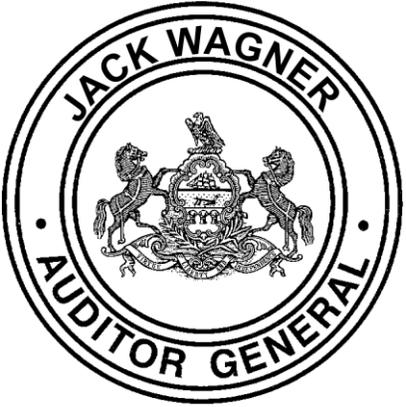
Recommendation: We recommend that municipal officials take appropriate action to eliminate the inconsistent contribution provisions contained in the plan's adoption agreement and Resolution No. 2004-11 at their earliest opportunity to do so.

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

SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 15,151	None
2005	16,764	None
2006	18,531	\$ 375
2007	22,445	284
2008	22,229	726
2009	18,768	4,586



SOUTHAMPTON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Southampton Township Nonuniformed Pension Plan
Franklin County
705 Municipal Drive
Shippensburg, PA 17257

Mr. Paul Witter	Chairman, Board of Township Supervisors
Mr. Samuel Cressler	Secretary/Treasurer

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.