

**ST. THOMAS TOWNSHIP NONUNIFORMED PENSION PLAN**

**FRANKLIN COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2007**





**ST. THOMAS TOWNSHIP NONUNIFORMED PENSION PLAN**

**FRANKLIN COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2007**



## CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Status of Prior Findings .....	5
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan .....	6
Supplementary Information .....	8
Report Distribution List .....	9



## **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 St. Thomas 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 St. Thomas Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 105, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 6.5 percent of each participant's compensation.





Board of Township Supervisors  
St. Thomas Township  
Franklin County  
Chambersburg, PA 17202

We have conducted a compliance audit of the St. Thomas Township Nonuniformed Pension Plan for the period January 1, 2005, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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. The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the St. Thomas 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 St. Thomas 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation –  
Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

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

August 14, 2008

JACK WAGNER  
Auditor General

ST. THOMAS TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

St. Thomas Township has complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$771 to the Commonwealth for the excess state aid received in 2004.

Partial Compliance With Prior Audit Recommendation

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

During the current audit period, municipal officials reconciled the amount of state aid and municipal contributions made to the plan with the pension plan's actual defined contribution pension costs. However, municipal officials failed to amend the plan's governing document to prohibit the allocation of state aid or municipal contributions to plan member's accounts in excess of the plan's required defined contribution percentage rate as disclosed in the Finding and Recommendation section of this report.

ST. THOMAS TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Municipal Contributions  
Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in our prior audit report, on December 31, 2004, the township made contributions totaling \$1,527 to the accounts of three plan members in excess of the contributions required to fund the plan. This situation occurred due to a provision contained in the plan's governing document that provides for the allocation of state aid and municipal contributions to plan member's accounts in excess of the plan's required defined contribution percentage rate. During the current audit period, the township did not make any excess municipal contributions to the plan. However, the township failed to amend the plan's governing document to preclude the allocation of state aid or municipal contributions to plan member's accounts in excess of the required defined contribution percentage rate.

The plan's governing document allows for the allocation of excess state aid and municipal contributions to plan members. Section 1 of Ordinance No. 141 states:

In the event the Municipality receives excess state pension aid from the Commonwealth of Pennsylvania, the Municipality is required to allocate the excess to plan members in an equal or proportionate manner. Any other source of excess contributions must also be allocated in an equal or proportionate manner.

Criteria: Section 1 of Ordinance No. 133 states:

For new plans established after December 18, 1984, the plan shall be financed by periodic payments made by the municipality in the amount of six and one-half percent (6½%) of each participant's compensation.

Furthermore, the township filed actuarial valuation report form 203A with the Public Employee Retirement Commission identifying the plan as a defined contribution pension plan.

Section 102 of Act 205 defines a defined contribution pension plan, as follows:

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. (Emphasis added)

ST. THOMAS TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Accordingly, Sections 3A and 5B of actuarial valuation report form 203A provide for reporting a defined contribution rate either at a specified percentage of payroll or as a specified flat dollar amount. No other types of reporting are provided for defined contribution pension plans.

Cause: Township officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: The municipality could allocate excess funds to the member's accounts in the future due to the unauthorized provision contained in the plan's governing document.

Recommendation: We again recommend that the township amend the plan's governing document to prohibit the allocation of state aid or municipal contributions to the plan member's accounts in excess of the plan's required defined contribution percentage rate.

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

ST. THOMAS TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 6,553	\$ 5,006
2003	6,767	4,683
2004	7,130	3,255
2005	4,830	4,284
2006	7,699	939
2007	7,160	467

ST. THOMAS TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

St. Thomas Township Nonuniformed Pension Plan  
Franklin County  
965 Hade Road  
Chambersburg, PA 17202

Mr. Timothy Sollenberger	Chairman, Board of Township Supervisors
Mr. James Faith, Jr.	Township Supervisor
Ms. Susan Zimmerman	Secretary

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).