

**THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN**

**DELAWARE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

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





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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 Thornbury 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 Thornbury Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 5 of 1997, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 20 percent of the previous year's participating payroll, plus any forfeitures. Each member's allocation shall be an amount equal to the employer's contributions plus any forfeitures, if applicable, multiplied by the ratio of such member's annual pay to the total annual pay of all plan members.



Board of Township Supervisors  
Thornbury Township  
Delaware County  
Cheyney, PA 19319

We have conducted a compliance audit of the Thornbury 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 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 finding 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 an internal control structure to provide reasonable assurance that the Thornbury 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 Thornbury 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 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System

We also noted other matters that have been included in the following observations further discussed later in this report:

Observation No. 1 – Lack Of Adequate Procedures Required To Properly Process The Distribution Of Pension Benefits

Observation No. 2 – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

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

January 21, 2009

JACK WAGNER  
Auditor General

THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

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

The township reimbursed \$5,854 to the Commonwealth for the overpayment of state aid.

THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Municipal Contributions Made In Excess Of Contributions 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Actual municipal pension Costs	\$ 50,517	\$ 39,831	\$ 50,767	\$ 141,115
State aid allocated	<u>(23,414)</u>	<u>(14,468)</u>	<u>(16,032)</u>	<u>(53,914)</u>
Municipal contributions required to fund plan	<u>\$ 27,103</u>	<u>\$ 25,363</u>	<u>\$ 34,735</u>	<u>\$ 87,201</u>
Actual municipal contributions made	\$ 9,885	\$ 54,646	\$ 41,092	\$ 105,623
Municipal contributions required to fund plan	<u>(27,103)</u>	<u>(25,363)</u>	<u>(34,735)</u>	<u>(87,201)</u>
Excess municipal Contributions	<u>\$ (17,218)</u>	<u>\$ 29,283</u>	<u>\$ 6,357</u>	<u>\$ 18,422</u>

Criteria: Resolution No. 5 of 1997 states, in part:

Thornbury Township establishes the Nonuniformed Pension Plan employer contribution to the retirement plan at 20% of previous year's participating payroll, plus any forfeitures.

In addition, the pension plan's adoption agreement states, in part:

Each such person's allocation shall be an amount equal to Employer Contributions and Forfeitures, if applicable, multiplied by the ratio of such person's Annual Pay to the total Annual Pay of all such persons.

THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

Effect: 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.

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

Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System

Condition: The township did not maintain an effective record-keeping system during the audit period. The deficiencies are as follows:

- Transmittal reports of municipal contributions that were prepared by the township and sent to Principal Financial Group could not be located; and
- All active members' payroll rosters could not be located.

THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: An adequate system of accounting and record keeping is a prerequisite for the sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities.

Effect: Although we were able to obtain financial records through third-party sources and perform alternative audit procedures, the failure to maintain adequate records prohibits plan officials from effectively monitoring the plan's financial operations.

Recommendation: We recommend that plan officials establish accounting procedures which meet the minimum record-keeping requirements of this department. Plan officials should refer to the Auditor General's Bulletin No. 2-88 entitled "Preparation, Maintenance and Auditability of Financial Records," for further guidance in establishing adequate accounting procedures.

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

THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 22,104	\$ 34,804
2003	23,155	29,588
2004	20,379	28,526
2005	23,414	9,885
2006	14,468	54,646
2007	16,032	41,092

THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN  
OBSERVATIONS

Observation No. 1 – Lack Of Adequate Procedures Required To Properly Process The  
Distribution Of Pension Benefits

Subsequent to the audit period, the former township treasurer who terminated employment on December 27, 2007, and whose pension account was 100 percent vested, was able to initiate and have processed a total distribution of her member account without any prior approval from township officials.

The township should consider implementing adequate internal control procedures to ensure that all requests for account balance distributions are documented in the minutes of council meetings and approved by municipal officials.

Observation No. 2 – Absence Of Measures Necessary To Ensure An Effective Transition Of  
Duties

Plan officials have not prepared management guidelines which describe the duties and responsibilities of municipal and plan officials in the operation of the nonuniformed pension plan.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected or delayed and investment opportunities may be lost.

The township should consider preparing a written operations manual which describes, in detail, the duties of municipal and plan officials responsible for the operation of the pension plan. This manual should be kept on file with other important plan documents.

THORNBURY TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Thornbury Township Nonuniformed Pension Plan  
Delaware County  
6 Township Drive  
Cheyney, PA 19319

Mr. James H. Raith	Chairman, Board of Township Supervisors
Mr. Jeffrey Seagraves	Township Manager
Ms. Jacqui Guenther	Assistant Township Manager
Mr. Peter Barsz	Township 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](http://www.auditorgen.state.pa.us).