

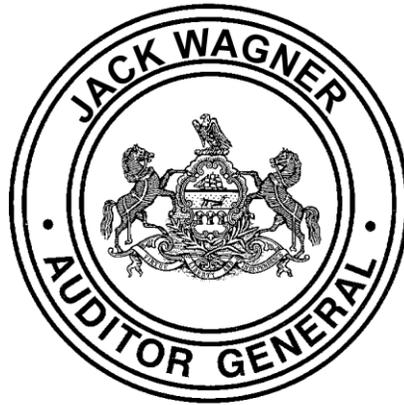
WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN

YORK COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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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 Washington 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 Washington Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 1994-12-94. Active members are not required to contribute to the plan. The municipality is required to contribute 9 percent of each member's compensation.



Board of Township Supervisors
Washington Township
York County
East Berlin, PA 17316

We have conducted a compliance audit of the Washington Township Nonuniformed Pension Plan for the period January 1, 2009, to December 31, 2011. 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 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. Washington Township contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 Washington 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 Washington 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 – Incorrect
Data On Certification Form AG 385 Resulting In An Overpayment
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 Washington Township and, where appropriate, their responses have been included in the report.

September 5, 2012

JACK WAGNER
Auditor General

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Washington Township has partially 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 \$126 to the Commonwealth for the overpayment of state aid received in 2006; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2009, 2010 and 2011, as further discussed in the Finding and Recommendation section of this report.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the prior audit report, the township overstated payroll in 2006 on Certification Form AG 385. The township reimbursed \$126 to the Commonwealth for the overpayment of state aid received in 2006; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2009, 2010 and 2011.

The township certified 4 ineligible employees and overstated payroll by \$114,968 and 115,178, respectively, on the Certification Forms AG 385 filed in 2009 and 2010, and certified 3 ineligible employees and overstated payroll by \$90,895 on the Certification Form AG 385 filed in 2011. The data contained on these certification forms is based on prior calendar year information.

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.

Section 402(h) of Act 205 states:

Certification of employees by eligible recipient municipalities. Each eligible recipient county of the second class shall certify annually to the Auditor General the number of police officers and each other eligible recipient municipality shall certify annually to the Auditor General the number of police officers, firefighters and municipal employees other than police officers and firefighters who meet the qualification requirements specified in subsection (e)(2), and whatever additional information the Auditor General requires to verify the number of units attributable to the municipality. No unit or units shall be attributable to any municipal employee who is not certified to the Auditor General in a timely manner.

Furthermore, Section 402(j) of Act 205 states:

Administration. The Auditor General shall have the duty of administering the General Municipal Pension System State Aid Program. The Auditor General may promulgate rules and regulations necessary for the efficient administration of this program and may specify the form and content of any forms applicable to the program. The Auditor General, as deemed necessary, shall 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.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, pursuant to the instructions that accompany Certification Form AG 385, in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months, worked not less than 35 hours per week and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified. Plan officials consider the employees in question to be full-time employees and therefore eligible for certification for state aid even though these employees did not work more than the required 35 hours per week for six consecutive months.

Effect: The data submitted on these certification forms 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 allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2009	9.0%	\$ 114,968	\$ 10,347
2010	9.0%	115,178	10,366
2011	9.0%	90,895	<u>8,181</u>
Total overpayment of state aid			<u>\$ 28,894</u>

Recommendation: We recommend that the total excess state aid, in the amount of \$28,894, 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.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management’s Response: Based on the response provided by the township solicitor, the township asserts that this finding is based on an incomplete understanding of the facts and incorrect application of the law. Act 205 of 1984, which governs the allocation of state pension aid to municipalities, provides that full-time nonuniformed employees are eligible for state aid; however, Act 205 does not define full-time. The response also indicates that the township has researched Pennsylvania’s statutes and regulations and finds no statute defining full-time for the purposes of determining eligibility for state aid. It appears that the Auditor General’s position that a nonuniformed employee must work 35 hours per week originates in its Municipal Bulletin No. 4-88. In the municipality’s view, since there is no statutory basis for the Auditor General’s position that a full-time employee must work at least 35 hours a week, it is questionable whether that position has the force of law. That said, once overtime is considered, it would appear that the township’s nonuniformed employees satisfy the Auditor General’s 35 hour per week requirement.

Based upon the Washington Township payroll summaries, which were provided to the Auditor General, the calculations (rounded to the closest whole number) show that two employees in question averaged 35 hours per week over the period 2009-2011. Thus these two employees satisfy the Auditor General’s 35 hour requirement.

The third employee in question is somewhat of a special case and is regularly scheduled to work 32 hours per week; however, he also works overtime as required. His overtime hours were as follows:

2009	2010	2011
157.75	314.75	256.5

His overtime hours, combined with his regularly scheduled 32 hours per week satisfy the 35 hour requirement; however, because of a significant health issue during 2009-2010 and because of lack of work at certain times, he did take some unpaid leave during that period of time that caused him to average slightly less than 35 hours per week during the three-year period, although under normal circumstances he would have worked 35 hours per week.

We believe the Auditor General should consider the fact that a large amount of overtime for these three employees is incurred during the winter months due to the nature of the work as the road crew. For the six month period beginning in January of each year, these employees were working at least 35 hours per week. Considering that the eligibility criteria established by Act 205 is that an employee must be employed for at least six consecutive months as a full-time employee, these three employees have satisfied this criteria by working an average of at least 35 hours per week during the period January through June.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Going forward, the township will redefine its regular working hours, so that regular hours are at least 35 hours per week, so as to remove any question as to whether the township is complying with the state aid eligibility criteria. However, considering all of the above circumstances, the township does not believe that it has incorrectly claimed state aid on the Certification Form AG 385 and any recoupment or reduction of future state aid is unwarranted in this case. Consequently, the township requests that this finding be rescinded.

Auditor’s Conclusion: The township’s payroll records were examined and it was determined that the employees in question did not meet the eligibility requirements for certification. As previously cited in the criteria, Act 205 authorizes the Department of the Auditor General to establish rules and regulations for the administration of the General Municipal System State Aid Program. Pursuant to this authority, the Department has established the criteria for full-time plan member’s being eligible to receive a state aid reimbursement as working 35 hours per week for six consecutive months. If every individual municipality was able to determine its own definition of “full-time employee” the Department would effectively be ceding its obligation to administer the state aid program. Therefore, the finding and recommendation remain as stated.

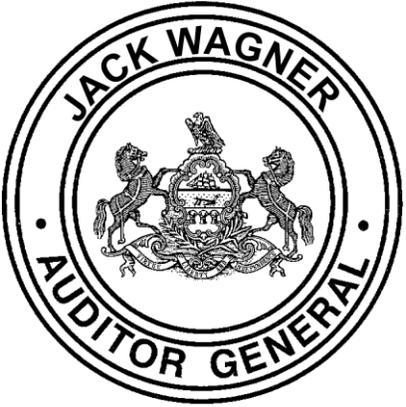
WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites overpayments of state aid to the township in the amount of \$28,894. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, 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.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 12,684	None
2007	11,250	\$ 816
2008	11,326	924
2009	10,347	1,689
2010	10,366	2,081
2011	11,047	1,261



WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Washington Township Nonuniformed Pension Plan
York County
14 Creek Road
East Berlin, PA 17316

Mr. Daniel McGregor Chairman, Board of Township Supervisors

Ms. Diane Deardorff 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.