

**WHARTON TOWNSHIP NONUNIFORMED PENSION PLAN**

**FAYETTE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





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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 Wharton 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 Wharton Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 5 of 1999. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each employee's total compensation.



Board of Township Supervisors  
Wharton Township  
Fayette County  
Farmington, PA 15437

We have conducted a compliance audit of the Wharton Township Nonuniformed Pension Plan for the period January 1, 2006, to December 31, 2008. 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. 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 Wharton 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 objective.

The results of our tests indicated that, in all significant respects, the Wharton 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 – Failure To Properly Fund Members’ Accounts

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

March 25, 2009

JACK WAGNER  
Auditor General

WHARTON TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Members’ Accounts

Condition: The township failed to make the 2008 fourth quarter contributions for four employees and failed to fund the account of one employee who became full-time during 2008. The total amount of the contributions due to the members’ accounts is \$1,629 as illustrated below:

| <u>Employee</u> | <u>Required<br/>Contributions</u> | <u>Actual<br/>Contributions</u> | <u>Contributions<br/>Due</u> |
|-----------------|-----------------------------------|---------------------------------|------------------------------|
| 1               | \$ 630                            | \$ 585                          | \$ 45                        |
| 2               | 854                               | 788                             | 66                           |
| 3               | 859                               | 793                             | 66                           |
| 4               | 859                               | 793                             | 66                           |
| 5               | 1,386                             | -                               | 1,386                        |
|                 |                                   | Total                           | <u>\$ 1,629</u>              |

Furthermore, the township overpaid \$188 to an employee who terminated employment in 2008.

Criteria: The plan’s governing document, Ordinance No. 5 of 1999, established the municipal contribution rate at 10 percent of each member’s total compensation.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township deposit the contributions due to the members’ accounts for the year 2008, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

WHARTON TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, we recommend the township review the improper contribution made in 2008 to the terminated employee with the plan's consultant to determine if the plan can be reimbursed for the unauthorized contribution.

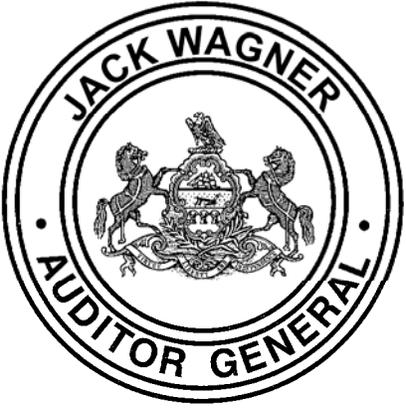
We also recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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

WHARTON TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid Deposited | Employer Contributions |
|------------------------|---------------------|------------------------|
| 2003                   | \$ 17,667           | \$ 930                 |
| 2004                   | 19,632              | 49                     |
| 2005                   | 18,888              | 416                    |
| 2006                   | 19,304              | 27                     |
| 2007                   | 17,281              | 12                     |
| 2008                   | 16,693              | 502                    |



WHARTON TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Wharton Township Nonuniformed Pension Plan  
Fayette County  
P.O. Box 1  
Farmington, PA 15437

|                     |   |
|---------------------|---|
| Mr. James C. Means  | Chairman, Board of Township Supervisors |
| Mr. John H. Lewis   | Chief Administrative Officer            |
| Ms. Carrie Morrison | 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](http://www.auditorgen.state.pa.us).