



**LIBERTY TOWNSHIP NON-UNIFORMED
EMPLOYEES PENSION PLAN**

ADAMS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2011 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Liberty Township
Adams County
Fairfield, PA 17320

We have conducted a compliance audit of the Liberty Township Non-Uniformed Employees Pension Plan for the period January 1, 2010 to December 31, 2012. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 the objective identified above. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether transfers were properly authorized, accurate, timely and properly recorded.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Liberty Township Non-Uniformed Employees 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

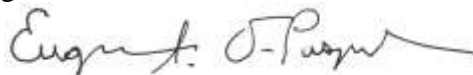
The results of our tests indicated that, in all significant respects, the Liberty Township Non-Uniformed Employees Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

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

Finding No. 2 – Employer Contribution Rate Changes Not Adopted By Resolution

Finding No. 3 – Undocumented Transfer Of Pension Plan Funds

The contents of this report were discussed with officials of Liberty Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.



EUGENE A. DEPASQUALE
Auditor General

March 12, 2014

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Liberty Township Non-Uniformed Employees 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 Liberty Township Non-Uniformed Employees Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution dated April 3, 2007. The plan was established January 1, 2007. Active members are not required to contribute to the plan. The municipality is required to contribute 7 percent of each participant's compensation. As of December 31, 2012, the plan had 2 active members, no terminated members eligible for vested benefits in the future and no retirees receiving pension benefits.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Allocation Of State Aid In Excess Of Entitlement

Condition: In 2010, the township allocated state aid to the non-uniformed employees pension plan in excess of the plan's defined contribution pension costs under Act 205, as illustrated below:

	<u>2010</u>
State aid allocation	\$ 6,470
Less: Actual municipal pension costs	<u>(2,700)</u>
Excess state aid	<u>\$ 3,770</u>

Criteria: 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 plan 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.

Cause: Plan 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.

Effect: It is this department's opinion that, since 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 it received one year to offset pension costs in other years; however, the township does have the option to allocate the excess state aid to its defined benefit police pension plan.

Recommendation: We recommend that municipal officials allocate the \$3,770 of excess state aid to the township's defined benefit police pension plan.

In addition, we recommend that in the future, plan officials reconcile the amount of state aid allocated to the pension plan and municipal contributions made to the pension plan with the pension plan's actual defined contribution pension costs.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Employer Contribution Rate Changes Not Properly Adopted By Resolution

Condition: The non-uniformed employees pension plan is controlled by the provisions of a resolution dated April 3, 2007, which set the employer's contribution rate at 1.0% of each participant's compensation. However, in 2010, the township contributed 2.5% of each participant's compensation and since 2011, the township has contributed 7.0% of each participant's compensation. These rate changes were not adopted by a resolution.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: Plan officials were unaware that the township should formally adopt the employer's contribution rate through a properly executed resolution.

Effect: The failure to properly adopt the employer's contribution rate could result in improper or inconsistent funding of the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to formally adopt the employer's contribution rate through a properly executed resolution.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 3 - Undocumented Transfer Of Pension Plan Funds

Condition: In 2011, the assets of the plan were transferred from the original custodian to another custodian. There is no record of the transfer of funds being authorized by the Board of Township Supervisors in the minutes of a board meeting, nor have there been any resolutions or ordinances amending the plan to change the custodian. In addition, the required procedures for the procurement of professional services outlined in Act 205 were not followed.

Criteria: Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, Chapter 7-A of the act outlines procedures that municipalities must follow regarding the procurement of professional services contracts.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Section 702-A. Procurement for professional services contracts, states:

(a) Procedures. Each municipal pension system, including the Pennsylvania Municipal Retirement System, shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Furthermore, sound internal control procedures dictate that transfers of pension plan funds must be properly authorized and documented.

Cause: Plan officials were unaware of the necessity for transfers of pension plan funds to be formally authorized and documented.

Effect: The failure to document the authorization of fund transfers could lead to inaccuracies or improprieties in account transactions.

Recommendation: We recommend that the township review the plan's asset transfer with their municipal solicitor and establish the required procedures pursuant to Act 205, as amended by Act 44 of 2009, to ensure the asset transfer is properly documented and that any future procurements of professional services will be done pursuant to Act 205 provisions.

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

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2007	None	\$ 663
2008	None	698
2009	None	741
2010	\$ 6,470	None
2011	2,236	3,133
2012	1,783	4,173

LIBERTY TOWNSHIP NON-UNIFORMED EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Liberty Township Non-Uniformed Employees Pension Plan
Adams County
39 Topper Road
Fairfield, PA 17320

Mr. John Bostek Chairman, Board of Township Supervisors

Ms. LeeEsta Shaffer Chief Administrative Officer

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.