



**UNION TOWNSHIP NON-UNIFORMED
PENSION PLAN**

MIFFLIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 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
Union Township
Mifflin County
Belleville, PA 17004

We have conducted a compliance audit of the Union Township Non-Uniformed 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 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. 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 the terms of the unallocated insurance contract, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

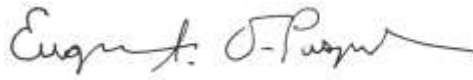
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Union Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 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 objectives.

The results of our tests indicated that, in all significant respects, the Union Township Non-Uniformed 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 – Noncompliance With Prior Audit Recommendation –
Inconsistent Plan Provisions

This finding repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The contents of this report were discussed with officials of Union Township and, where appropriate, their responses have been included in the report.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

September 5, 2013

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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 Union Township Non-Uniformed 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 Union Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2010-3 and a separately executed governmental money purchase plan with the plan's custodian. The plan was established January 1, 1984. Active members are not required to contribute to the plan. The municipality is annually required to contribute 8 percent of the current year's participation payroll plus employee forfeitures, if applicable. As of December 31, 2012, the plan had 6 active members and 1 terminated member eligible for vested benefits in the future.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Union Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Inconsistent Plan Provisions

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Noncompliance With Prior Audit Recommendation – Inconsistent Plan Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document contained a funding provision that conflicted with the separately executed plan agreement with the plan’s custodian. On November 15, 2010, the township enacted Ordinance No. 2010-3, which was intended to adopt a plan agreement that restated the township’s non-uniformed pension plan as a governmental money purchase pension plan with a defined employer contribution rate, effective January 1, 2008. However, Ordinance No. 2010-3 states a different defined contribution rate that continues to conflict with the rate established in the plan agreement, as illustrated below:

<u>Provision</u>	<u>Governing Ordinance</u>	<u>Separately Executed Plan Agreement</u>
Contribution requirement	Section III: This ordinance establishes an annual employer contribution equivalent to 8% of the current year participation payroll plus any forfeiture.	Section 3.01 of Article III states: The amount of the employer contribution for each eligible person shall be calculated as of the contribution date and shall be equal to 10% of the participant’s annual compensation.

Plan officials funded the plan and allocated amounts to members pursuant to the provisions contained in the plan’s governing ordinance (8 percent) during the current audit period.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits and the pension plan’s benefit structure should be consistent among the various plan documents.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the adopted ordinance was consistent with the plan agreement to ensure compliance with the prior audit recommendation.

Effect: Inconsistent funding provisions could result in inconsistent or improper funding of the individual plan member’s accounts.

Recommendation: We again recommend that plan officials establish adequate internal control procedures to ensure that the plan’s governing document and the plan agreement contain consistent funding provisions and that the members’ accounts are funded accordingly.

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials have indicated that the process of revising and amending the separately executed adoption agreement is underway. They advised that due to the change in officials responsible for administering the plan since the previous audits, the corrective action to the problem was put on hold, but it is now currently in motion to correct the problem. The township has made it clear that any adjustments to members' accounts as a result of corrective action will be accounted for if deemed necessary.

Auditor's Conclusion: We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report. Compliance will be evaluated during our next audit of the plan.

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

Year Ended December 31	State Aid	Employer Contributions
2007	\$ 17,716	None
2008	17,963	None
2009	18,756	None
2010	18,878	\$ 1,419
2011	19,189	None
2012	20,721	None

UNION TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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Belleville, PA 17004

Mr. Richard Dailey Chairman, Board of Township Supervisors
Ms. Michelle Shirey Secretary

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.