

**CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN**

**DAUPHIN COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**





**CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN**

**DAUPHIN COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**



## CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General .....	3
Status of Prior Finding .....	5
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan .....	6
Supplementary Information .....	9
Report Distribution List .....	11

### ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System



## 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 Conewago 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Conewago Township Nonuniformed Pension Plan is a cash balance pension plan locally controlled prior to September 1, 2008, by the provisions of Ordinance No. 2001-1, and effective September 1, 2008, by Ordinance No. 2008-4, adopted pursuant to Act 15. Active members are not required to contribute to the plan. The municipality is required to quarterly contribute 3 percent of each member's compensation.





Board of Township Supervisors  
Conewago Township  
Dauphin County  
Elizabethtown, PA 17022

We have conducted a compliance audit of the Conewago Township Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2010. 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. Conewago Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.

The Conewago Township Nonuniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Conewago 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 Conewago 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 – Receipt Of  
State Aid In Excess Of Entitlement And Municipal Contributions  
Made In Excess Of Contributions Required To Fund The Plan

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

April 13, 2011

JACK WAGNER  
Auditor General

CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Conewago Township has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

During the current audit period, the municipality reimbursed \$4,116 to the Commonwealth for the overpayments of state aid in the years 2006 and 2007, and liquidated the unallocated reserve fund maintained by the pension plan by applying the funds to required employer contributions. However, plan officials failed to properly account for available employee forfeitures in 2010 which resulted in the receipt of excess state aid and excess municipal contributions as further discussed in the Finding and Recommendation section of this report.

CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement And Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in the prior audit report, the township received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs in the years 2006 and 2007. During the current audit period, the township reimbursed \$4,116 to the Commonwealth for the overpayments of state aid and liquidated the unallocated reserve fund caused by the excess municipal contributions. However, the township received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs and also made municipal contributions in excess of those required to fund the plan in the year 2010, as illustrated below:

Actual municipal pension costs	\$	3,946
Employee forfeitures available		<u>(2,278)</u>
Adjusted actual municipal pension costs	\$	1,668
State aid allocated		<u>(2,461)</u>
Excess state aid received	<u>\$</u>	<u>793</u>
Actual municipal contributions made	\$	1,315
Municipal contributions required to fund plan		<u>-</u>
Excess municipal contributions	<u>\$</u>	<u>1,315</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 plans 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.

CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, Section 13 of the plan agreement states:

The Township will contribute quarterly three percent (3%) of each member's compensation to the System.

Furthermore, Section 14 of the plan agreement states:

In the event a member's service with the Township is terminated for any reason whatsoever before the funds set aside for such member are vested or if the member elects not to receive a benefit, then the amount of such funds which have not been contributed by the member and which are not vested shall be credited against the next contribution due from the Township for the remaining or future members of this Plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that available employee forfeitures were utilized in accordance with the provisions contained in the plan's governing document.

Effect: It is this department's opinion that because 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 in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the year 2010, in the total amount of \$793, must be returned to the Commonwealth for redistribution.

In addition, as a result of the township not using available forfeitures toward the 2010 pension plan costs, an unallocated reserve fund in the amount of \$2,381 existed as of December 31, 2010.

CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the municipality return the \$793 of excess state aid received in the year 2010 to the Commonwealth from the nonuniformed pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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 evidence of payment.

We also recommend that the township liquidate the unallocated reserve fund maintained by the pension plan by transferring the assets which represent excess municipal contributions to the township's general fund, and using the remaining balance of the fund towards 2011 employer contributions due to the plan.

Furthermore, we again recommend that plan officials establish adequate internal control procedures to reconcile the amount of state aid allocated to the township, any available employee forfeitures and municipal contributions made to the pension plan, with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth. In addition, if employee forfeitures become available, plan officials should consult with PMRS to determine if additional municipal contributions need to be made to meet the plan's funding requirements.

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

CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 2,089	\$ 1,097
2006	None	572
2007	None	762
2008	1,246	416
2009	2,232	2,702
2010	2,461	1,315





CONEWAGO TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Conewago Township Nonuniformed Pension Plan  
Dauphin County  
3279 Hershey Road  
Elizabethtown, PA 17022

Mr. Joel Buckley	Chairman, Board of Township Supervisors
Ms. Shirley Meyers	Secretary
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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).