



**DARLINGTON TOWNSHIP NON-UNIFORMED
PENSION PLAN**

BEAVER 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
Darlington Township
Beaver County
Darlington, PA 16115

We have conducted a compliance audit of the Darlington 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings 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 contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.
- Whether refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.

The Darlington Township Non-Uniformed 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.

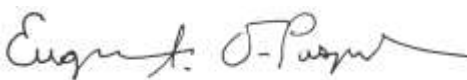
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Darlington Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Darlington 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 findings further discussed later in this report:

- Finding No. 1 – Partial Compliance With Prior Audit Recommendation -
Incorrect Data On Certification Form AG 385 Resulting In
An Overpayment Of State Aid
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation -
Failure To Properly Fund Member Accounts
- Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

The contents of this report were discussed with officials of Darlington 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.

October 22, 2013



EUGENE A. DEPASQUALE
Auditor General

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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 Darlington 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 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 Darlington Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 38, adopted pursuant to Act 15, and a pension plan agreement with PMRS dated March 10, 2003. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2012, the plan had 6 active members, 1 terminated member eligible for vested benefits in the future and 2 retirees receiving pension benefits.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendations

The township has partially complied with the prior audit recommendations concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the township reimbursed \$619 to the Commonwealth for the overpayments of state aid received in 2008 and 2009; 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 2010, 2011 and 2012 as further discussed in the Findings and Recommendations section of this report.

- Failure To Properly Fund Member Accounts.

During the current audit period, township officials deposited the contributions due to the members' accounts for the years 2007 and 2009, with interest; however, the township failed to properly fund the accounts of 2 members in 2010 and 2012 as further discussed in the Findings and Recommendations section of this report.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 Certification Forms AG 385 filed by the township in 2008 and 2009 contained incorrect data. During the current audit period, the township reimbursed \$619 to the Commonwealth for the overpayments of state aid received due to the certification errors; 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 2010, 2011 and 2012.

The township certified 1 ineligible non-uniformed employee and overstated payroll by \$21,633 on the Certification Form AG 385 filed in 2010. The township certified 2 ineligible non-uniformed employees and overstated payroll and transposed wages of a certifiable member by a total of \$36,290 on the Certification Form AG 385 filed in 2011. Lastly, the township certified 1 ineligible non-uniformed employee and overstated payroll by a total of \$22,152 on the Certification Form AG 385 filed in 2012. 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.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and to ensure full compliance with the prior audit recommendation.

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>
2010	10.0%	\$ 21,633	\$ 2,163
2011	10.0%	\$ 36,290	\$ 3,629
2012	10.0%	\$ 22,152	\$ 2,215
		Total	<u><u>\$ 8,007</u></u>

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan in 2010; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's 2010 MMO will not be fully paid.

Lastly, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total overpayment of \$8,007 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, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Member Accounts

Condition: As disclosed in the prior audit report, the township did not fully fund the accounts of 1 member in 2007 and 1 member in 2009. During the current audit period, township officials deposited the contributions due to the members’ accounts for the years 2007 and 2009, with interest; however, the township made excess municipal contributions to the accounts of 1 member in 2010 and 1 member in 2012 in the amounts of \$242 and \$222, as illustrated below:

2010	Required Contributions	Actual Contributions	Excess Contributions
Employee 1	\$ 2,216	\$ 2,458	\$ 242
2012	Required Contributions	Actual Contributions	Excess Contributions
Employee 2	\$ 285	\$ 507	\$ 222

Criteria: The municipality’s pension plan agreement dated March 10, 2003, as amended, sets the municipal contribution rate at 10 percent of each member’s compensation.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan’s governing document and to ensure full compliance with the prior audit recommendation.

Effect: The municipality allocated funds to the members’ accounts in excess of the percentage rate contained in the plan’s governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan’s governing document.

It is the opinion of this department that the township’s failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the members’ accounts at this time.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the township review the members’ accounts with PMRS and its solicitor to determine whether the excess municipal contributions should be withdrawn from the members’ accounts and be reimbursed to the township.

We also again recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

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

Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the pension plan’s annual pension costs after the application of available employee forfeitures in the years 2011 and 2012, as illustrated below:

	<u>2011</u>	<u>2012</u>
Actual municipal pension costs	\$ 13,160	\$ 12,575
Employee forfeitures available*	<u>(16,300)</u>	<u>(4,820)</u>
Adjusted municipal pension costs	-	7,755
State aid allocated	<u>(13,800)</u>	<u>(11,952)</u>
Excess state aid	13,800	4,197
Less certification error in Finding No. 1	<u>(3,629)</u>	<u>(2,215)</u>
Excess state aid	<u>\$ 10,171</u>	<u>\$ 1,982</u>

* Employee forfeitures in the amount of \$16,300 became available in 2011. These forfeitures were applied to the plan’s pension costs in the amounts of \$13,160 in 2011 and \$3,140 in 2012. Additional forfeitures in the amount of \$1,680 became available in 2012 for a total of \$4,820 in forfeitures that were applied in 2012.

On October 8, 2012, the township reimbursed \$9,753 of state aid to the Commonwealth leaving a balance due of \$2,400.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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.

Furthermore, Section 8 of the plan agreement states, in part:

...if the member elects not to receive a benefit, the accumulated contributions personally made by the member plus regular interest and any excess investment monies credited on such contributions shall be returned. A withdrawal by a member of the amount which such member has contributed toward such member's pension shall make the member ineligible to receive the contribution which the Township has made on behalf of such member.

In addition, Section 14 of the plan agreement states, in part:

...if the member elects not to receive a benefit, then the amount of such funds which have not been contributed by the member ... shall be credited against the next contribution due from the Township for the remaining or future members of the plan.

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the township and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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 outstanding balance of the overpayments of state aid received in the years 2011 and 2012, in the total amount of \$2,400, must be returned to the Commonwealth for redistribution.

Furthermore, the township's future state aid allocations may be withheld until the finding recommendation is complied with.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the municipality reimburse \$2,400, representing the remainder of excess state aid received in the years 2011 and 2012, to the Commonwealth from the township's general fund. 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, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we again recommend that in the future, plan officials reconcile the amount of state aid allocated to the township and any available employee forfeitures with the plan's annual pension costs and reimburse any excess state aid received to the Commonwealth.

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

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 3 contained in this audit report cites overpayments of state aid to the township in the total amount of \$10,407. Conditions of this nature may lead to a total withholding of state aid in the future unless these findings are 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, 320 Finance Building, Harrisburg, PA 17120.

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

Year Ended December 31	State Aid	Employer Contributions
2007	\$ 2,825	\$ 6,435
2008	8,722	1,985
2009	10,216	747
2010	10,475	3,737
2011	None	None
2012	7,755	None

Note: In 2011, the township met the plan's \$13,160 funding requirement by utilizing \$13,160 in terminated employee forfeitures. In 2012, the township met the plan's \$12,575 funding requirement through the deposit of \$7,755 in state aid and \$4,820 in terminated employee forfeitures.

DARLINGTON TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Darlington Township Non-Uniformed Pension Plan
Beaver County
3590 Darlington Road
Darlington, PA 16115

Mr. Chad Crawford	Chairman, Board of Township Supervisors
Ms. Daisy Stone	Treasurer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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