

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN

CUMBERLAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 Dickinson 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.

Act 69 - Second Class Township Code, Act of May 1, 1933, (P.L. 103, No. 69), as amended, 53 P.S. § 65595, et seq.

The Dickinson Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 05-1, as amended, adopted pursuant to Act 15. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's compensation.



Board of Township Supervisors
Dickinson Township
Cumberland County
Mt. Holly Springs, PA 17065

We have conducted a compliance audit of the Dickinson Township Nonuniformed Pension Plan for the period January 1, 2005, to December 31, 2007. 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 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 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. The Dickinson 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 an internal control structure to provide reasonable assurance that the Dickinson 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 objectives.

The results of our tests indicated that, in all significant respects, the Dickinson 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 findings further discussed later in this report:

Finding No. 1 – Improper Ownership Of Allocated Insurance Contracts

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In
An Overpayment Of State Aid

Finding No. 4 – Incorrect Distribution Of Forfeitures

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

June 30, 2008

JACK WAGNER
Auditor General

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Dickinson Township has complied with the prior audit recommendation concerning the following:

- Failure To Maintain An Adequate Record-Keeping System

The township established adequate record-keeping procedures during the audit period.

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Improper Ownership Of Allocated Insurance Contracts

Condition: On May 25, 2006, the township improperly transferred the ownership of 2 allocated insurance policies from the township to 2 active plan members. The policies had been purchased for the plan members prior to the plan joining PMRS in 2003.

Criteria: Sound internal control procedures dictate that the pension plan should maintain ownership of the allocated insurance contracts to ensure that any distributions made are in accordance with the plan’s governing document.

In addition, Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefits to plan members upon their retirement eligibility.

Cause: The township failed to establish adequate internal control procedures to ensure that it maintained ownership of the allocated insurance contracts.

Effect: Continued improper ownership of the allocated insurance contracts could result in premature benefit payments being made if the plan members surrender the policies prior their eligibility for retirement benefits.

Recommendation: We recommend that plan officials take the necessary steps to change the ownership of these allocated insurance contracts from the plan members to the pension plan.

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

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the nonuniformed pension plan's defined contribution pension costs in the year 2006 as illustrated below:

State aid allocation	\$ 24,708
Actual municipal pension costs	<u>(23,078)</u>
Excess state aid	<u>\$ 1,630</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.

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 in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the amount of \$1,630 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$1,630 of excess state aid received in the year 2006 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and municipal contributions made to the pension plan with the plan’s defined contribution pension costs.

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

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified 1 ineligible nonuniformed employee and overstated payroll by \$43,677 in 2007 on Certification Form AG 385.

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 were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Since the township’s state aid allocation was based on pension costs, the effect of the incorrect certification of pension data on the township’s state aid allocation is identified below:

<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
10%	\$ 43,677	\$ 4,368

Recommendation: We recommend that the excess state aid received in 2007 be reimbursed 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, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Finding No. 4 – Incorrect Distribution Of Forfeitures

Condition: The township passed Resolution No. 07-01 and Resolution No. 2007-09 to reallocate any assets in the township's PMRS Municipal Reserve Account as of December 31, 2006, and December 31, 2007, due to forfeitures, on an equal basis among all members in active status as of December 31, 2006, and December 31, 2007, respectively. Various plan members terminated employment in 2006 and 2007, resulting in forfeitures of \$6,112 and \$26,188, respectively. These amounts were credited to the municipal reserve account during 2006 and 2007.

During 2007, the township used \$9,412 of forfeitures deposited to the municipal reserve account to pay township contributions due to the plan in 2007, instead of allocating the forfeitures to the active plan member's accounts. On December 31, 2007, \$16,776 was reallocated from the municipal reserve account to the respective active plan member's accounts. However, there is an \$8,682 outstanding balance in the municipal reserve account as of December 31, 2007, which includes the 2006 excess state aid amount of \$1,630, the remaining forfeiture balance of \$6,112 and credited interest.

Criteria: As set forth in the PMRS agreement adopted by Ordinance 05-1 on January 3, 2005, Section 14 allows the municipality to pass a resolution on an annual basis to allow forfeitures to be distributed on an equal basis to active member accounts. The township passed Resolution No. 07-01 on February 19, 2007, which states:

“..., the township agrees to reallocate any assets in the municipal account as of December 31, 2006, due to forfeitures on an equal basis among all members in active status as of December 31, 2006. Each member shall receive a distribution equal to the percentage their individual account balance reflects of the plans total members' account balances as of December 31, 2006...”

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

In addition, the township passed Resolution No. 2007-09 on December 27, 2007, which states:

“..., the township agrees to reallocate any assets in the municipal account as of December 31, 2006 (sic), due to forfeitures on an equal basis among all members in active status as of December 31, 2007. Each member shall receive a distribution equal to the percentage their individual account balance reflects of the plans total members’ account balances as of December 31, 2007.

Cause: Township officials failed to establish adequate internal control procedures to ensure forfeitures were distributed in accordance with the above-mentioned resolutions.

Effect: The failure to properly distribute forfeiture amounts could result in plan members receiving lower benefit distributions to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township review this finding with representatives from PMRS and determine the adjustments that need to be made to the respective plan members’ accounts and deposit the necessary contributions due, with interest.

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

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 2 and 3 contained in this audit report cite overpayments of state aid to the township in the total amount of \$5,998. A condition of this nature may lead to a total withholding of state aid in the future unless those 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 3,944	\$ 2,710
2003	5,866	6,214
2004	12,091	3,112
2005	13,109	6,186
2006	24,708	None
2007	17,442	10,698

DICKINSON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Dickinson Township Nonuniformed Pension Plan
Cumberland County
219 Mountain View Road
Mt. Holly Springs, PA 17065

Mr. Raymond Jones	Chairman, Board of Township Supervisors
Ms. Laura Portillo	Treasurer
Mr. Benjamin F. Mader	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.