

DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009

CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Finding	5
Findings and Recommendations:	
Finding No. 1 – Receipt Of State Aid In Excess Of Pension Costs	6
Finding No. 2 – Failure To Properly Determine And Distribute Vested Pension Benefits	7
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 Drumore 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 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Drumore Township Nonuniformed Pension Plan is a single-employer cash balance pension plan locally controlled effective January 1, 2009, by the provisions of Ordinance No. 2009-01, adopted pursuant to Act 15. Active members are not required to contribute to the plan. The municipality is required to contribute quarterly 8 percent of each member's compensation.

Prior to January 1, 2009, the Drumore Township Nonuniformed Pension Plan operated as a defined contribution pension plan locally controlled by the provisions of Resolution No. 93-01, as amended. Active members were not required to contribute to the plan. The municipality was required to contribute \$2,500 for each employee who worked 1,750 hours during the calendar year.



Board of Township Supervisors
Drumore Township
Lancaster County
Drumore, PA 17518

We have conducted a compliance audit of the Drumore Township Nonuniformed Pension Plan for the period January 1, 2007, to December 31, 2009. 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 Drumore 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 Drumore 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 Drumore 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 – Receipt Of State Aid In Excess Of Pension Costs

Finding No. 2 – Failure To Properly Determine And Distribute Vested Member Benefits

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

May 26, 2010

JACK WAGNER
Auditor General

DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

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

The township reimbursed \$2,640 to the Commonwealth for the overpayment of state aid.

DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Pension Costs

Condition: The township received state aid in excess of the plan’s annual pension costs for 2009 due to the township’s failure to apply a terminated member’s forfeiture, as illustrated below:

State aid allocation	\$ 2,910
Forfeiture available	1,248
Actual municipal pension costs	<u>(2,910)</u>
Excess state aid	<u>\$ 1,248</u>

As disclosed in Finding No. 2 contained in this audit report, an employee who terminated in 2008 with one year of credited service was entitled to 25 percent of his vested account balance. However, the remaining nonvested, forfeiture portion of his account was not properly determined and utilized by the township to offset plan costs in 2009 as prescribed in the plan’s governing document.

Criteria: Resolution No. 93-01 at Section 6.c states:

Any portion of a participant’s account balance to which the participant is not entitled shall be forfeited on the first anniversary date following the date on which the participant’s employment is terminated. Such forfeited portion shall serve to reduce subsequent Township contributions to the Plan.

Furthermore, 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: Township officials failed to establish adequate internal control procedures to ensure that forfeiture amounts are timely identified and utilized in accordance with the plan’s governing document.

DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 2009, in the total amount of \$1,248, must be returned to the Commonwealth for redistribution. It should also be noted that the overpayment of state aid was included in the funds transferred to PMRS when the plan switched custodians in 2009.

Recommendation: We recommend that the municipality return the \$1,248 of excess state aid received in the year 2009 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.

Furthermore, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan, after the application of any available employee forfeitures, with the plan's annual defined contribution pension costs.

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

Finding No. 2 – Failure To Properly Determine And Distribute Vested Pension Benefits

Condition: The township failed to properly determine and distribute a vested benefit for an employee who terminated in 2008 with one year of credited service in accordance with the plan's governing document.

DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Resolution No. 93-01 at Section 6.b states, in part:

In the event a participant's employment is terminated for any reason other than 65th birthday, death or disability, the terminated participant shall be entitled to 100% of his account balance if the participant has completed four years of service with the Township, otherwise, such percentage shall be based upon the following schedule:

<u>Year Of Service</u>	<u>Percentage</u>
0	0
1	25%
2	50%
3	75%
4 or more	100%

Therefore, pursuant to the above schedule, the terminated employee was entitled to a distribution in the amount of 25 percent of his account balance or approximately \$416 and the remaining 75 percent is required to be forfeited in accordance with the plan's governing document as disclosed in Finding No. 1 contained in this audit report.

Cause: Township officials failed to establish adequate internal control procedures to ensure that benefits are timely determined and distributed in accordance with the plan's governing document.

Effect: A terminated vested plan member is being denied benefits to which he is entitled in accordance with the plan's governing document. It should also be noted that the funds due to the terminated vested member were included in the funds transferred to PMRS when the plan switched custodians in 2009.

Recommendation: We recommend that the township review the situation with PMRS to determine the amount that should be distributed to the terminated vested member. A copy of the final determination and distribution of benefits to this member should be maintained on file with the municipality for examination during our next audit of the pension plan.

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

DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 2,023	\$ 477
2005	None	None
2006	2,498	2
2007	2,986	2,014
2008	2,500	None
2009	2,910	None



DRUMORE TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Drumore Township Nonuniformed Pension Plan
Lancaster County
P.O. Box 38
1675 Furniss Road
Drumore, PA 17518

Mr. Kolin D. McCauley	Chairman, Board of Township Supervisors
Ms. Sharon Roth	Secretary
Ms. Kristine Gibboney	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.