

**EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN**

**ARMSTRONG COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





**EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN**

**ARMSTRONG COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**



## CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts .....	6
Finding No. 2 – Untimely Deposit Of State Aid .....	7
Finding No. 3 – Inconsistent Pension Benefit .....	8
Supplementary Information .....	10
Report Distribution List .....	11



## 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 East Franklin Township Police 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 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 East Franklin Township Police Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 01-2008, adopted pursuant to Act 69, effective January 1, 2008. Prior to January 1, 2008, the plan was governed by an adoption agreement effective January 1, 1993, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. Active members are not required to contribute the plan. The municipality is required to contribute 15 percent of each member's annual base salary.





Board of Township Supervisors  
East Franklin Township  
Armstrong County  
Kittanning, PA 16201-8859

We have conducted a compliance audit of the East Franklin Township Police Pension Plan for the period January 1, 2006, to December 31, 2008. 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 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. The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Franklin Township Police 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 East Franklin Township Police 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 –  
Failure To Fund Members' Accounts

Finding No. 2 – Untimely Deposit Of State Aid

Finding No. 3 – Inconsistent Pension Benefit

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

September 29, 2009

JACK WAGNER  
Auditor General

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

East Franklin Township has complied with the prior audit recommendation concerning the following:

- Unauthorized Funding Mechanism

The township transferred the plan's assets to an eligible funding mechanism and the township returned \$515 of state aid allocated to the unauthorized funding mechanism during the prior audit period.

Partial Compliance With Prior Audit Recommendation

- Failure To Fund Members' Accounts

The township properly funded the accounts of all eligible plan members for the years 2004 and 2005; however, plan officials did not properly fund the accounts of all eligible plan members in the years 2007 and 2008, as discussed in the Findings and Recommendations section of this report.

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts

Condition: As disclosed in the prior audit report, the township did not fully fund the accounts of two plan members for the years 2004 and 2005. During the current audit period, the township properly funded the accounts of the two plan members for the years 2004 and 2005; however, plan officials did not properly fund the accounts of all eligible plan members in the years 2007 and 2008.

In 2007, the required and actual contributions detailed below include both employee and employer contributions that were erroneously deposited into the wrong member’s account, as illustrated below:

2007 Employees	Required Contributions	Actual Contributions	Contributions Due/(Excess)
1	\$ 8,125	\$ 6,666	\$ 1,459
2	6,666	8,125	(1,459)
Total			\$ -

In addition, the township did not fully fund the account of one member and overfunded the account of another member in 2008, as illustrated below:

2008 Employees	Required Contributions	Actual Contributions	Contributions Due/(Excess)
1	\$ 7,420	\$ 5,516	\$ 1,904
2	6,154	6,769	(615)
Total			\$ 1,289

Criteria: Township officials established the municipal contribution rate at 15 percent of each member’s annual base salary.

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

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document. Furthermore, due to the township's failure to properly fund the members' accounts, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contribution due to the member's account for the year 2008, with interest. A copy of the interest calculation should be maintained by the township for examination during our next audit of the plan.

In addition, we recommend the township review the excess contribution made in 2008 with the plan's consultant to determine if the plan can be reimbursed for the excess contribution and also correct the contribution errors made in 2007.

Furthermore, we again recommend that, in the future, township officials properly fund the accounts of all eligible plan members.

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

Finding No. 2 – Untimely Deposit of State Aid

Condition: The township did not deposit its 2006 and 2007 state aid allocations into the pension plan within the 30 day grace period allowed by Act 205. The township deposited its 2006 and 2007 state aid allocations into its general fund on October 16, 2006, and October 3, 2007, respectively, but did not deposit the police pension plan's share of state aid into its police pension plan until December 21, 2006, and January 9, 2008, respectively.

Criteria: Section 402(f)(2) of Act 205 state, in part:

...the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plan.

Cause: The municipality failed to establish adequate internal control procedures to ensure the state aid allocations were deposited timely.

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually into the eligible plan members' accounts. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid is deposited into the pension plan within 30 days of receipt by the municipal treasurer.

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

Finding No. 3 – Inconsistent Pension Benefit

Condition: The pension plan's governing document, Resolution No. 01-2008, contains a benefit provision that conflicts with the collective bargaining agreement, effective January 1, 2008, between the police officers and the township, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Member contributions	Contributions are voluntary and permitted at an amount determined by the individual police officer.	Each patrolman shall contribute three percent of his annual base salary to the pension plan.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained a consistent member contribution provision.

Effect: Inconsistent plan documents could result in plan members making incorrect contributions to the plan.

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that municipal officials ensure the member contribution provision contained in the plan's governing document is consistent with the collective bargaining agreement at their earliest opportunity to do so.

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

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 4,165	\$ 10,196
2004	None	9,244
2005	None	10,278
2006	9,386	1,516
2007	1,796	10,530
2008	4,762	7,523



EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

East Franklin Township Police Pension Plan  
Armstrong County  
106 Cherry Orchard Avenue  
Kittanning, PA 16201-8859

Mr. Barry Peters                      Chairman, Board of Township Supervisors

Ms. Debra L. Cornman              Secretary

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).