

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN

ARMSTRONG COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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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.

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. 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 to the plan. The municipality is required to contribute 3 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, 2009, to December 31, 2011. 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 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 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.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- 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 allocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

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. 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 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it 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.

August 7, 2012

JACK WAGNER
Auditor General



EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- Failure To Fund Members' Accounts

The township deposited the contributions due to the members' accounts for the years 2007 and 2008; and

- Untimely Deposit Of State Aid

State aid allocations were deposited timely in accordance with Act 205 requirements.

Noncompliance With Prior Audit Recommendation

East Franklin Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Inconsistent Pension Benefit

EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit

Condition: As disclosed in the prior audit report, 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:

Benefit Provision	Governing Document	Collective Bargaining Agreement
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: The plan’s governing document and the collective bargaining agreement should contain a consistent member contributions provision to ensure the consistent, sound administration of retirement benefits.

Cause: The collective bargaining agreement between the township and its police officers expired on December 31, 2011, and a new agreement has not been reached.

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

Recommendation: We again recommend that municipal officials ensure the member contributions provision 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
2006	\$ 9,386	\$ 1,516
2007	1,796	11,989
2008	4,762	9,427
2009	2,673	None
2010	904	1,482
2011	None	1,541



EAST FRANKLIN TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
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/Treasurer

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.