



**EAST PENNSBORO TOWNSHIP NONUNIFORMED
PENSION PLAN**

CUMBERLAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN

CUMBERLAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

CONTENTS

| | <u>Page</u> |
|--|-------------|
| Background..... | 1 |
| Letter from the Auditor General | 3 |
| Status of Prior Finding | 7 |
| 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..... | 8 |
| Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System | 9 |
| Supplementary Information | 11 |
| Report Distribution List | 15 |

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 Pennsboro 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.

The East Pennsboro Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 85-20. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees.





**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Commissioners
East Pennsboro Township
Cumberland County
Enola, PA 17025

We have conducted a compliance audit of the East Pennsboro Township Nonuniformed 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 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. 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 unallocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Pennsboro 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 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 Pennsboro 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:

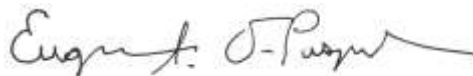
Finding No. 1 – Partial Compliance With Prior Audit Recommendation -
Incorrect Data On Certification Form AG 385 Resulting In
An Overpayment Of State Aid

Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System

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. However, we are concerned about the funded status of the plan contained in the schedule of funding progress included in this report **which indicates the plan's funded ratio is 69.2% as of January 1, 2011, which is the most recent date available.** We encourage township officials to monitor the funding of the nonuniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of East Pennsboro Township and, where appropriate, their responses have been included in the report.

March 4, 2013



EUGENE A. DEPASQUALE
Auditor General



EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

East Pennsboro Township has partially complied with the prior audit recommendation 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 \$10,054 to the Commonwealth for the overpayment of state aid received in 2008; 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 year 2011 as further discussed in the Findings and Recommendations section of this report.

EAST PENNSBORO TOWNSHIP NONUNIFORMED 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 township’s 2008 Certification Form AG 385 contained errors that resulted in an overpayment of state aid. During the current audit period, the township reimbursed \$10,054 to the Commonwealth for the overpayment of state aid received; 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 year 2011.

The township certified 1 ineligible nonuniformed employee (1 unit) and overstated payroll by \$26,114 on the Certification Form AG 385 filed in 2011. The data contained on this certification form 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 certified an employee who had not become a member of the plan in 2010 due to the one-year waiting requirement for plan membership eligibility.

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 plans. Because the township’s state aid allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

| <u>Units</u> <u>Overstated</u> | <u>Unit</u> <u>Value</u> | <u>State Aid</u> <u>Overpayment</u> |
|-----------------------------------|-----------------------------|--|
| 1 | \$ 5,597 | \$ 5,597 |

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

EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the overpayment of state aid, in the amount of \$5,597, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. 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 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 nonuniformed 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.

Finding No. 2 – Failure To Maintain An Adequate Record-Keeping System

Condition: The township failed to maintain an adequate record-keeping system for the pension plan during the current audit period. Most of the documents needed to perform the audit of the pension plan could not be located by plan officials.

Criteria: An adequate system of accounting and record keeping is a prerequisite for the sound administration of pension plans.

Cause: The administrative assistant who maintained all of the township's records for the pension plan left on administrative leave in August 2012 prior to the start of the current audit. Plan officials failed to establish adequate internal control procedures to ensure the plan's records would be readily available to other township employees.

Effect: Although we were able to obtain copies from a third-party source in order to complete our audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan's financial operations.

EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure that the plan's accounting records and custodial transaction statements are adequately safeguarded and readily available for review by plan officials.

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

EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2007, is as follows:

| | (1) | (2) | (3) | (4) | (5) | (6) |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)] |
| 01-01-07 | \$ 4,695,043 | \$ 6,803,435 | \$ 2,108,392 | 69.0% | \$ 1,931,352 | 109.2% |
| 01-01-09 | 5,004,870 | 7,977,828 | 2,972,958 | 62.7% | 2,198,380 | 135.2% |
| 01-01-11 | 6,418,336 | 9,274,170 | 2,855,834 | 69.2% | 2,447,127 | 116.7% |

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2006 | \$ 225,584 | 100.0% |
| 2007 | 236,866 | 100.0% |
| 2008 | 353,181 | 100.0% |
| 2009 | 363,010 | 100.0% |
| 2010 | 467,850 | 100.0% |
| 2011 | 494,995 | 100.0% |

EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

| | |
|-------------------------------|------------------------------|
| Actuarial valuation date | January 1, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 10 years |
| Asset valuation method | Fair value, 5-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return * | 6.75% |
| Projected salary increases * | 4.0% |
| * Includes inflation at | Not disclosed |
| Cost-of-living adjustments | None assumed |

EAST PENNSBORO TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

East Pennsboro Township Nonuniformed Pension Plan
Cumberland County
98 South Enola Drive
Enola, PA 17025

Mr. D. Scott Dardick President, Board of Township Commissioners

Mr. A. John Pietropaoli Township Manager

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.