

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 Eden 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 Eden Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 11-12-2001-01. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of each employee's annual gross wages.



Board of Township Supervisors
Eden Township
Lancaster County
Quarryville, PA 17566

We have conducted a compliance audit of the Eden 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*, issued by the Comptroller General of the United States.

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 an internal control structure to provide reasonable assurance that the Eden 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 Eden 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 – Noncompliance With Prior Audit Recommendation –
Governing Ordinance Allocates Excess State Aid Among
Members

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

Finding No. 3 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The Plan

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

February 26, 2008

JACK WAGNER
Auditor General

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Eden Township has complied with the prior audit recommendations concerning the following:

- Failure To Follow The Plan's Governing Document

The township passed Resolution 2005-08-08-01 which set the municipal contribution rate at 6 percent annually and established that the liability for administrative costs is to be paid solely by the plan; and

- Failure To Appoint A Chief Administrative Officer

Through a motion recorded in the minutes of a council meeting, the township treasurer was appointed as the Chief Administrative Officer of the pension plan.

Noncompliance With Prior Audit Recommendation

Eden Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Governing Ordinance Allocates Excess State Aid Among Members

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Governing Ordinance
Allocates Excess State Aid Among Members

Condition: As disclosed in our prior audit report, the plan’s governing ordinance allows for the allocation of excess state aid to plan members. Section 7 of Ordinance No. 11-12-2001-01 states, in part:

Unless the Board of Supervisors shall (within thirty (30) days of receipt of any excess contributions from the Commonwealth or any other source) by Resolution designate the manner by which said contributions shall be distributed or provided for, any excess funds received from the Commonwealth or from any other source shall be distributed equally among the participating members in the Plan who are qualified for Plan Benefits at the time of receipt of those excess funds by the Township.

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to received an allocation of general municipal pension system state aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plan 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.

The township filed actuarial valuation report form 203A for the nonuniformed pension plan with the Public Employee Retirement Commission identifying the plan as a defined contribution plan.

Section 102 of Act 205 defines a defined contribution pension plan, as follows:

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.
(Emphasis added)

Accordingly, Section V, B, of the actuarial valuation report form 203A provides for reporting a defined contribution rate either at a specified percentage of payroll or as a specified flat dollar amount. No other types of reporting are provided for defined contribution pension plans.

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Effect: It is the 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 or to provide additional benefits to members in excess of authorized defined contribution amounts.

Recommendation: We again recommend that the municipality amend the plan’s governing ordinance to eliminate the discretionary employer contribution language as it relates to excess General Municipal Pension System State Aid.

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

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

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	\$ 4,094
Actual municipal pension costs	<u>(3,556)</u>
Excess state aid	<u>\$ 538</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.

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 year 2006, in the total amount of \$538, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$538 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.

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 actual defined contribution pension costs.

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

Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund
The Plan

Condition: The township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in the year 2007, as illustrated below:

Actual municipal pension costs	\$ 4,104
State aid allocated	<u>(3,556)</u>
Municipal contributions required to fund plan	<u>\$ 548</u>

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Actual municipal contributions made	\$ 2,188
Municipal contributions required to fund plan	<u>(548)</u>
Excess municipal contributions	<u>\$ 1,640</u>

Criteria: Section 6 of Ordinance No. 11-12-2001-01 states:

The plan shall be financed by periodic payments made by the Township in amounts set by resolution annually for each Employee in the plan.

Furthermore, Section 6 of Resolution 2005-08-08-01 states:

The plan shall be financed by an annual contribution by the township of 6% of each eligible employee’s annual gross wages. The 6% percentage rate shall remain unless adjusted by resolution at an annual organizational meeting.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The township did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan’s governing document.

Effect: The municipality allocated funds to the members’ accounts in excess of the defined contribution percentage rate contained in the plan’s governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan’s governing document.

It is the opinion of this department that the township’s failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the members’ accounts at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members’ accounts and be reimbursed to the township.

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

We also 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 pension plan's annual defined contribution pension costs.

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

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the township in the amount of \$538. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is 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.

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 3,818	\$ 3,894
2005	3,918	200
2006	4,094	None
2007	3,556	2,188

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Eden Township Nonuniformed Pension Plan
Lancaster County
489 Stony Hill Road
Quarryville, PA 17566

Mr. Ellis Ferguson Chairman, Board of Township Supervisors

Mr. Jay Groff 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.