

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Governing Ordinance Allocates Excess State Aid Among Members.....	6
Finding No. 2 – Failure To Properly Fund Members’ Accounts	7
Supplementary Information	9
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 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 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 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, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of each eligible 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, 2008, to December 31, 2010. 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.

Township officials are responsible for establishing and maintaining effective internal controls 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. 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 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 – Failure To Properly Fund Members' Accounts

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.

March 10, 2011

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:

- Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$619 to the Commonwealth for the excess state aid received in 2006; and

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

The township withdrew \$1,690 of excess municipal contributions made to the plan in 2007.

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 the 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 receive 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 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 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 plan’s governing ordinance be amended to eliminate the provision that authorizes the township to allocate state aid to the members’ accounts in excess of the plan’s annual defined contribution pension costs.

Furthermore, we again recommend that plan officials annually reconcile the amount of state aid and municipal contributions allocated to the pension plan with the plan’s annual defined contribution pension costs.

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

Finding No. 2 – Failure To Properly Fund Members’ Accounts

Condition: The township did not properly fund the accounts of 2 members in 2008, 2009 and 2010 as illustrated below:

<u>2008 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,978	\$ 1,915	\$ 63
2	2,290	2,189	101
		Total	<u>\$ 164</u>
<u>2009 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,828	\$ 1,978	\$ (150)
2	2,383	2,290	93
		Total	<u>\$ (57)</u>

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

2010 Employees	Required Contributions	Actual Contributions	Contributions Due
1	\$ 2,567	\$ 2,383	\$ 184
2	\$ 2,065	-	2,065
		Total	\$ 2,249

Criteria: Resolution No. 2005-08-08-01 establishes the municipal contribution rate at 6 percent of each eligible employee’s annual gross wages.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The failure to properly fund the members’ accounts could result in plan members receiving incorrect benefit payments from the pension plan.

Furthermore, due to the township’s failure to properly fund the members’ accounts, the township must now pay interest on the delinquent contributions due.

Recommendation: We recommend that the township review the members’ accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

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

EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 3,918	\$ 200
2006	4,094	None
2007	3,556	2,188
2008	4,104	None
2009	4,268	None
2010	2,383	None



EDEN TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
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
Ms. Meghan Murphy Chief Administrative Officer

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.