

EPHRATA TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



EPHRATA TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010

CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Finding and Recommendation:	
Finding – Failure To Properly Fund Member’s Account.....	5
Supplementary Information	6
Report Distribution List	7

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 Ephrata 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 Ephrata Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 228. Active members are not required to contribute to the plan. The municipality is required to contribute 8 percent of each participant's compensation.



Board of Township Supervisors
Ephrata Township
Lancaster County
Ephrata, PA 17522

We have conducted a compliance audit of the Ephrata 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. Ephrata Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Ephrata 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Ephrata 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 finding further discussed later in this report:

Finding – Failure To Properly Fund Member’s Account

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

April 29, 2011

JACK WAGNER
Auditor General

EPHRATA TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Member’s Account

Condition: The township did not fully fund the account of a plan member in 2009, as illustrated below:

Required Contributions	Actual Contributions	Contributions Due
\$ 3,834	\$ 3,314	\$ 520

Criteria: The plan’s governing document, Ordinance No. 228, sets the municipal contribution rate at 8 percent of compensation.

Section 1.2 of Ordinance No. 228 also defines compensation, in part, as:

...any earnings reportable as W-2 wages for federal income tax withholding purposes, plus elective contributions, for the...plan year.

Cause: Plan officials incorrectly used the member’s W-2 wages for state income tax withholding purposes which did not include earnings from disability payments received and reported as federal taxable income on the W-2 form for that year.

Effect: The failure to properly fund the member’s account resulted in the plan member being denied benefits to which she was entitled when she received her retirement distribution upon her termination of employment with the township.

Furthermore, due to the township’s failure to properly fund the member’s account, the township must now pay interest on the delinquent contribution.

Recommendation: We recommend that the township pay the retired member the outstanding contribution due to her for the year 2009, with interest. A copy of the interest calculation should be maintained by the township for examination during our next audit of the plan.

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

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

EPHRATA TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 17,561	\$ 8,056
2006	15,443	1,670
2007	16,032	9,750
2008	15,932	14,268
2009	18,768	15,408
2010	22,644	8,881

EPHRATA TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Ephrata Township Nonuniformed Pension Plan
Lancaster County
265 Akron Road
Ephrata, PA 17522

Mr. Clark Stauffer	Chairman, Board of Township Supervisors
Mr. Steven Sawyer	Township Manager
Ms. Jennifer Carvell	Bookkeeper

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.