

**EXETER TOWNSHIP POLICE PENSION PLAN**

**LUZERNE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2004, TO DECEMBER 31, 2006**





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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, 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 Exeter 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943, (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1, et seq.

The Exeter Township Police Pension Plan is a fully insured defined benefit pension plan in which the aggregate insurance and annuity coverage currently maintained is sufficient to fully assume the liability for all benefits. Therefore, the township's only obligation is the continued payment of the required insurance premiums. The value of benefits insured through allocated insurance contracts are excluded from the assets of the plan; such plans are, by definition, fully funded. The pension plan is locally controlled by the provisions of Ordinance No. 1 of 1995, as amended, adopted pursuant to Act 120.





Board of Township Supervisors  
Exeter Township  
Luzerne County  
West Pittston, PA 18643

We have conducted a compliance audit of the Exeter Township Police Pension Plan for the period January 1, 2004, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 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 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.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Exeter Township Police 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 Exeter 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 observation further discussed later in this report:

Observation – Failure To Prepare Financial Statements

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

April 5, 2007

JACK WAGNER  
Auditor General

EXETER TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

- Failure To Prepare Financial Statements

The status of the prior audit recommendation is addressed in the Observation included in the Comments section of this report.

EXETER TOWNSHIP POLICE PENSION PLAN  
COMMENTS

Observation – Failure To Prepare Financial Statements

Plan officials have not prepared financial statements or required notes to the financial statements for the police pension plan for the years ended December 31, 2006, 2005 and 2004.

Financial reporting assists in fulfilling a municipality's duty to be publicly accountable and should enable users to assess accountability. Guidance for the form and content of annual financial statements and note to the financial statements can be found in Governmental Accounting Standards Board Statements No. 25 (GASB 25) and No. 3 (GASB 3), as amended by No. 40 (GASB 40).

Plan officials should establish and implement procedures to ensure the preparation of annual financial statements, which include note disclosures required by GASB 25 and GASB 3, as amended by GASB 40, in accordance with accounting principles generally accepted in the United States of America.

EXETER TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Exeter Township Police Pension Plan  
Luzerne County  
R. R. 1, Box 191  
West Pittston, PA 18643

Mr. Donald Hoffman      Chairman, Board of Township Supervisors

Ms. Mary Frances Martin      Secretary

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](http://www.auditorgen.state.pa.us).