

**FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN**

**BUTLER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2007**





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## BACKGROUND

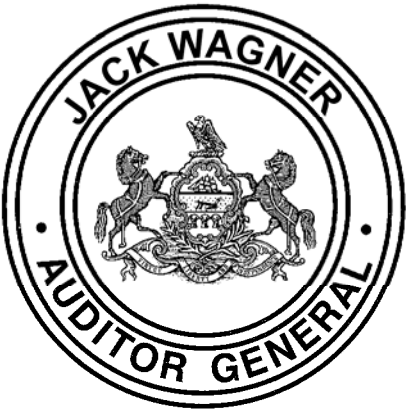
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Fairview 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 Fairview Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 1-01, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute \$2,500 per year on behalf of each participant.





Board of Township Supervisors  
Fairview Township  
Butler County  
Karns City, PA 16041

We have conducted a compliance audit of the Fairview 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* 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 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 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 Fairview 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 Fairview 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 - Untimely Deposit Of State Aid

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

We also noted a matter that has been included in the following observation further discussed later in this report:

Observation - Absence Of Measures Necessary To Ensure An Effective  
Transition Of Duties

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

October 3, 2008

JACK WAGNER  
Auditor General

FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Fairview Township has complied with the prior audit recommendation concerning the following:

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

Municipal officials applied \$2,325 of excess contributions made in 2004 towards the pension costs of the pension plan for 2005.

FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2006 and 2007 state aid allocations into the pension plan within the 30 day grace period allowed by Act 205. The municipality deposited its 2006 and 2007 state aid allocations in the amounts of \$4,696 and \$3,998, respectively, into the township's general fund on October 24, 2006, and September 28, 2007, respectively; however, the township did not deposit the funds into its nonuniformed pension plan until January 11, 2008.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: The 2006 and 2007 state aid allocations were not deposited timely into the municipality's pension plan because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the nonuniformed pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into the pension plan within 30 days of receipt by the municipal treasurer.

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

FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

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 2008, as illustrated below:

State aid allocation	\$ 4,424
Actual municipal pension costs	<u>(2,500)</u>
Excess state aid	<u>\$ 1,924</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.

Cause: A plan member's termination of employment in January of 2008 resulted in a reduction of the plan's 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 2008, in the total amount of \$1,924, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$1,924 of excess state aid received in the year 2008 to the Commonwealth from the general fund. 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.

FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 defined contribution pension costs.

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

FAIRVIEW 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 \$1,924. 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.

FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF STATE AID  
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	None	\$ 2,500
2003	None	2,500
2004	\$ 2,325	175
2005	2,215	2,610
2006	4,696	304
2007	3,998	1,002



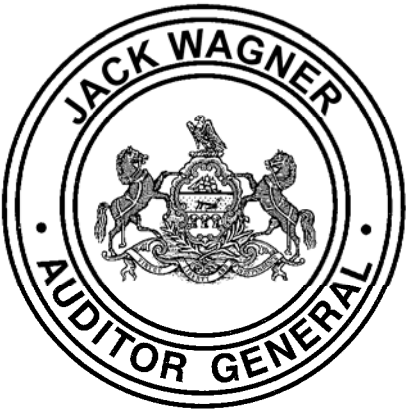
FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN  
OBSERVATION

Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

Plan officials have not prepared management guidelines, which describe the duties and responsibilities of municipal and plan officials in the operation of the nonuniformed pension plan.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected or delayed and investment opportunities may be lost.

The township should consider preparing a written operations manual, which describes, in detail, the duties of municipal and plan officials responsible for the operation of the pension plan. This manual should be kept on file with other important plan documents.



FAIRVIEW TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Fairview Township Nonuniformed Pension Plan  
Butler County  
1571 Hooker Road  
Karns City, PA 16041

Mr. Paul Dorr                      Chairman, Board of Township Supervisors

Ms. Dusty D. Neff                Secretary/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](http://www.auditorgen.state.pa.us).