

FERGUSON TOWNSHIP NONUNIFORMED PENSION PLAN

CENTRE 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 Ferguson 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 Ferguson Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2002-6. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's earnings.



Board of Township Supervisors
Ferguson Township
Centre County
State College, PA 16801

We have conducted a compliance audit of the Ferguson 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. Ferguson 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 an internal control structure to provide reasonable assurance that the Ferguson 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 Ferguson 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 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The Plan

Finding No. 2 – Failure To Fully 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 Ferguson Township and, where appropriate, their responses have been included in the report.

August 27, 2008

JACK WAGNER
Auditor General

FERGUSON TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials transferred \$1,250 from the nonuniformed pension plan to the police pension plan.

FERGUSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: In 2005, the township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

Actual municipal pension costs	\$	112,294
Forfeitures applied		(6,156)
Adjusted actual municipal pension costs		106,138
State aid allocated		(74,434)
Municipal contributions required to fund plan	\$	31,704
Actual municipal contributions made	\$	32,318
Municipal contributions required to fund plan		(31,704)
Excess municipal contributions	\$	614

Criteria: The plan’s governing document, the Governmental Money Purchase Plan & Trust Document adopted by Resolution No. 2002-6, sets the municipal contribution rate at 10 percent of each participant’s earnings.

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: As a result of the township making contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan and the failure to allocate available plan forfeitures to reduce municipal contributions, an unallocated reserve fund in the amount of \$11,036 was generated as of December 31, 2007.

FERGUSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 unallocated reserve fund 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.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated, forfeitures applied 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.

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

Condition: In 2006 and 2007, the township did not fully fund the nonuniformed pension plan members’ accounts because forfeitures were transferred to a reserve account and not applied to the members’ accounts as illustrated in the table below:

	<u>2006</u>	<u>2007</u>
Actual municipal pension costs	\$ 117,501	\$ 124,882
Forfeitures applied	-	-
State aid allocated	<u>(92,656)</u>	<u>(109,549)</u>
Municipal contributions required to fund plan	<u>\$ 24,845</u>	<u>\$ 15,333</u>
Municipal contributions required to fund plan	\$ 24,845	\$ 15,333
Actual municipal contributions made	<u>(23,679)</u>	<u>(11,773)</u>
Municipal contributions due	<u>\$ 1,166</u>	<u>\$ 3,560</u>

FERGUSON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: The plan’s governing document, the Governmental Money Purchase Plan & Trust Document adopted by Resolution No. 2002-6, sets the municipal contribution rate at 10 percent of each participant’s earnings. In addition, Section 4.02 of the plan document states, in part:

All amounts forfeited by terminated participants, pursuant to Section 7.06, shall be allocated to a suspense account and used to reduce dollar for dollar Employer Contributions otherwise required under the plan for the current plan year and succeeding plan years, if necessary.

Cause: Township officials failed to allocate available forfeitures as required by the plan’s governing document.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township allocate the contributions due to the members’ accounts for the years 2006 and 2007, with interest, from the unallocated reserve account. 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, in the future, plan officials utilize and liquidate the unallocated reserve account after state aid is allocated to the pension plan prior to making additional municipal contributions.

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

FERGUSON TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 84,778	\$ 11,899
2003	96,609	4,433
2004	87,352	16,200
2005	74,434	38,474
2006	92,656	23,679
2007	109,549	11,773



FERGUSON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Ferguson Township Nonuniformed Pension Plan
Centre County
3147 Research Drive
State College, PA 16801

Mr. Richard Mascolo	Chairman, Board of Township Supervisors
Mr. Mark Kunkle	Township Manager
Mr. Eric Endresen	Finance Director

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.