GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN

BLAIR COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Greenfield Township
Blair County
Claysburg, PA 16625

We have conducted a compliance audit of the Greenfield Township Non-Uniformed Pension Plan for the period January 1, 2010, to December 31, 2012. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.

- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.

- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.

- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The Greenfield Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Greenfield Township Non-Uniformed 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our tests indicated that, in all significant respects, the Greenfield Township Non-Uniformed 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 – Unauthorized Compensation Used To Calculate Pension Benefit

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 3 – Untimely Deposit Of State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Greenfield Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

October 3, 2013

EUGENE A. DEPASQUALE
Auditor General

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Greenfield Township Non-Uniformed 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Greenfield Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 94-02, adopted pursuant to Act 15. As of December 31, 2012, the plan had 3 active members, 1 terminated member eligible for vested benefits in the future and 3 retirees and 1 surviving spouse receiving pension benefits.

Finding No. 1 – Unauthorized Compensation Used To Calculate Pension Benefit

Condition: A monthly pension benefit being paid to the surviving spouse of the former township secretary was improperly determined when compensation earned outside of the duties and responsibilities of the full-time position of township secretary was included in the benefit calculation. Compensation totaling $89,139 paid for part-time services performed for the township senior center and municipal authority was improperly included as part of the 5-year final average salary used to calculate the monthly survivor benefit.

A comparison of the compensation attributable to the former township secretary's full-time municipal employment and the compensation provided to PMRS to calculate the pension benefit is illustrated below:

Year	Township Secretary Compensation	Total Compensation Reported To PMRS	Excess Compensation Included In Benefit Calculation
2007	$ 20,255	$ 35,187	$ 14,932
2008	35,278	51,420	16,142
2009	37,106	53,743	16,637
2010	38,643	55,841	17,198
2011	40,000	57,784	17,784
2012	24,310	30,756	6,446
		Total	$ 89,139

Criteria: The plan agreement with PMRS defines compensation, in part, as "remuneration actually received for services rendered as a Member including salary, overtime, and longevity, but excluding reimbursement for expenses incidental to employment." The plan agreement defines "Member" in part, as "an elected official or municipal employee who meets the eligibility requirements in Article III, Section 3.1 or 3.2 and is paid on a regular salary or per diem basis". Since the compensation paid to the former secretary for part-time work was not regular salary attributable to her full-time employment, it should not have been included in her surviving spouse's pension benefit determination.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the compensation reported to PMRS only included compensation attributable to the former secretary's full-time position with the township.

Finding No. 1 – (Continued)

Effect: Due to the inclusion of the unauthorized compensation, the spouse of the former township secretary is receiving a survivor benefit in excess of the amount to which he is entitled. Furthermore, the use of the unauthorized compensation to calculate the pension benefit resulted in excess monies being transferred from the PMRS municipal account to the retirees reserve account in order to fully fund the survivor's pension benefit.

Recommendation: We recommend that municipal officials consult with PMRS to recalculate the survivor benefit using the correct and authorized compensation and adjust the surviving spouse's monthly benefit prospectively.

In addition, any excess monies transferred to the retiree reserve to pay the unauthorized pension benefit should be returned to the municipal reserve account.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the pensionable wages certified to PMRS, to ensure their accuracy of pension benefit determinations.

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

Finding No. 2 - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The former township secretary overstated her certifiable payroll on the Certification Form AG 385 filed in 2010, 2011 and 2012 by $16,637, $17,548 and $18,234 respectively. Certifiable payroll was overstated when compensation for part-time services performed for the township senior center and municipal authority was incorrectly included in the 2010 AG 385 and when compensation for part-time services performed for the township senior center, municipal authority and as a township supervisor was incorrectly included on Form AG 385 in 2011 and 2012. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time township positions.

Cause: The township failed to establish adequate internal control procedures to ensure the certification forms submitted by the former secretary properly reflected the amounts of her salary that were eligible to be certified.

Finding No. 2 – (Continued)

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township's state aid allocations for 2010, 2011 and 2012 were based on pension costs, the incorrect certification of pension data affected the township's state aid allocations, as identified below:

Year	Normal Cost %	Payroll Overstatement	State Aid Overpayment
2010	9.41872%	$ 16,637	$ 1,567
2011	9.41872%	$ 17,548	$ 1,653
2012	7.40056%	$ 18,234	$ 1,349
		Total Overpayment of State Aid	$ 4,569

In addition, the township used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the non-uniformed pension plan; therefore, if the entire reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid for the year 2012.

Recommendation: We recommend that the total excess state aid, in the amount of $4,569, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, 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, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Finding No. 3 - Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2010 state aid allocation into the pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2010 state aid allocation in the amount of $8,570 in October of 2010, but did not deposit the money into its non-uniformed pension plan until December 2, 2011.

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: Plan officials failed to establish adequate internal control procedures to ensure that the township's 2010 state aid allocation was deposited timely in accordance with Act 205 requirements.

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 non-uniformed 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 adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2007, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	$ 274,007	$ 172,649	$ (101,358)	158.7%	None	N/A
01-01-09	291,651	259,925	(31,726)	112.2%	126,928	(25.0%)
01-01-11	306,076	312,013	5,937	98.1%	149,448	4.0%

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	None	N/A
2011	$ 7,334	138.8%
2012	9,247	111.9%

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
Cost-of-living adjustments	3.0%, where applicable

* Includes inflation at 3.0%

GREENFIELD TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
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Mr. Joseph D. Claar	Chairman, Board of Township Supervisors
Mr. Harry F. Black	Co-Chairman, Board of Township Supervisors
Ms. Teresa Patterson	Chief Administrative Officer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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