

**HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES  
PENSION PLAN**

**LUZERNE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





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## BACKGROUND

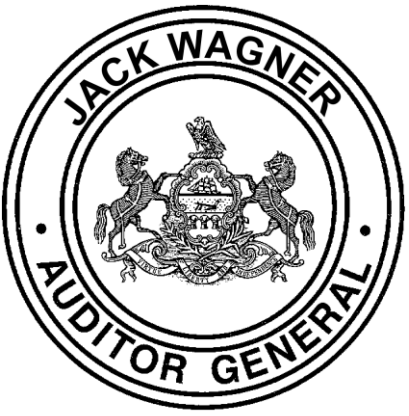
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Hanover Township Nonuniformed Employees 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 331 - The First Class Township Code, Act of June 24, 1931 (P.L. 1206, No. 331), as amended, 53 P.S. § 55101 et seq.

The Hanover Township Nonuniformed Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 015-2003, as amended, adopted pursuant to Act 331. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees.





Board of Township Commissioners  
Hanover Township  
Luzerne County  
Hanover Township, PA 18706

We have conducted a compliance audit of the Hanover Township Nonuniformed Employees Pension Plan for the period January 1, 2008, to December 31, 2009. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for 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. Hanover 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 Hanover Township Nonuniformed Employees 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 objectives, 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 objectives.

The results of our tests indicated that, in all significant respects, the Hanover Township Nonuniformed Employees Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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

January 28, 2011

JACK WAGNER  
Auditor General

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Improper Pension Benefit

The prior audit reports for the periods January 1, 2000, to December 31, 2002, January 1, 2003, to December 31, 2005, and January 1, 2006, to December 31, 2007, contained a finding that the township improperly revised a monthly pension benefit of a member who retired on April 1, 2001. At the time of the member's retirement, the plan participated in the Pennsylvania Municipal Retirement System (PMRS), and his \$706 monthly pension benefit was determined in accordance with the existing PMRS agreement. On June 2, 2001, the township adopted an ordinance authorizing the plan's withdrawal from PMRS. On September 27, 2001, the township retroactively adjusted the members' monthly pension benefit to \$1,026 based on the new plan agreement by increasing the multiplier from 1% to 1.5% of the member's final average salary. The plan paid the revised pension benefits to the retiree until his death in March of 2003, and then began paying a 50 percent survivor pension benefit to his surviving spouse based on the improper revised pension determination. This has resulted in the surviving spouse receiving an excess pension benefit of \$160 per month. It should be noted that this situation will not affect any other plan member that will retire in the future. Since the township received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits being provided to the retiree's surviving spouse. The Department will continue to monitor the effect of the excess benefits being provided to the retiree's surviving spouse during our next audit of the plan.

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, 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)]
01-01-05	\$ 2,207,233	\$ 2,934,732	\$ 727,499	75.2%	\$ 1,110,783	65.5%
01-01-07	2,624,624	3,358,831	734,207	78.1%	1,113,142	66.0%
01-01-09	2,850,502	3,924,369	1,073,867	72.6%	1,161,269	92.5%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period which will be limited to a maximum of 130 percent and a minimum of 70 percent of the fair market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES 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. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

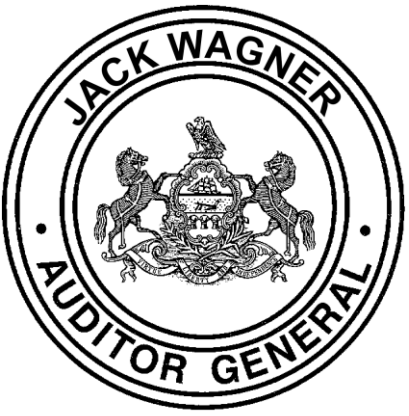
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 108,638	100.0%
2005	132,080	100.0%
2006	124,954	100.0%
2007	122,137	100.0%
2008	124,964	100.0%
2009	142,492	100.0%

HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	5-year smoothing - the actuarial value of assets will be limited to a maximum of 130% and a minimum of 70% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%





HANOVER TOWNSHIP NONUNIFORMED EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Hanover Township Nonuniformed Employees Pension Plan  
Luzerne County  
1267 San Souci Parkway  
Hanover Township, PA 18706

Mr. Albert J. Bagusky    Chairman, Board of Township Commissioners

Mr. John J. Sipper       Township Manager

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).