



**HARRIS TOWNSHIP NON-UNIFORMED  
PENSION PLAN**

**CENTRE 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  
Harris Township  
Centre County  
Boalsburg, PA 16827

We have conducted a compliance audit of the Harris 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 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. 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Harris 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 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 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 objectives.

The results of our tests indicated that, in all significant respects, the Harris 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:

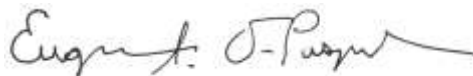
Finding No. 1 – Partial Compliance With Prior Audit Recommendation -  
Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

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

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

July 2, 2013



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background .....	1
Status of Prior Finding .....	2
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan .....	3
Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement.....	4
Supplementary Information .....	7
Report Distribution List .....	8

## **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 Harris 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.

The Harris Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 03-05. Active members are not required to contribute to the plan. The municipality is required to contribute 7.65 percent of each member's earnings.

HARRIS TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Harris Township has partially complied with the prior audit recommendation concerning the following:

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

During the current audit period, plan officials, in consultation with the township's solicitor, elected that the excess municipal contributions deposited in 2009 should remain in the plan members' accounts; however, plan officials failed to establish and implement adequate internal control procedures to ensure that the amount of state aid allocated to the pension plan and municipal contributions made to the plan do not exceed the contributions required to fund the plan as further discussed in the Findings and Recommendations section of this report.

HARRIS TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in our prior audit report, the township made contributions to the non-uniformed pension plan in excess of contributions required to fund the plan in 2009. During the current audit period, plan officials, in consultation with the township’s solicitor, elected that the excess municipal contributions made in 2009 should remain in the individual plan members’ accounts; however, in 2011, the township again made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

Actual municipal pension costs	\$	32,701
State aid allocated (See Finding No. 2)		(33,230)
Municipal contributions required to fund plan	\$	-
Actual municipal contributions made	\$	1,076
Municipal contributions required to fund plan		-
Excess municipal contributions	\$	1,076

Criteria: Section IV of the ICMA Adoption Agreement states, in part:

The Employer shall contribute on behalf of each participant 7.65% of earnings for the plan year.

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: Plan officials failed to establish adequate internal control provisions to ensure that only the required amount of state aid and municipal contributions were deposited into the members’ accounts.



HARRIS TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The municipality allocated funds to the members’ accounts in excess of the defined contribution percentage rate contained in the plan’s governing document. By making excess municipal contributions, plan members will receive additional benefits beyond those outlined in the plan’s governing document.

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 members’ accounts at this time.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions made in 2011 should be withdrawn from the members’ accounts and be reimbursed to the township.

We also again recommend that plan officials establish and implement adequate internal control procedures, such as having 2 people review the amount of municipal contributions that are made to the pension plan, to ensure that the amount of state aid allocated to the pension plan and municipal contributions made to the pension plan do not exceed the contributions required to fund the plan.

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

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

Condition: The township received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the years 2011 and 2012, as illustrated below:

	<u>2011</u>	<u>2012</u>
State aid allocation	\$ 33,230	\$ 32,185
Actual municipal pension costs	<u>(32,701)</u>	<u>(29,686)</u>
Excess state aid	<u>\$ 529</u>	<u>\$ 2,499</u>

HARRIS TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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: Plan officials failed to establish adequate internal control procedures to reconcile the township's annual state aid allocation with the plan's actual defined contribution pension costs.

Effect: It is this department's opinion that because 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 overpayments of state aid received in the years 2011 and 2012 must be returned to the Commonwealth for redistribution.

Furthermore, the municipality allocated the excess state aid to the members' accounts in excess of the defined contribution percentage rate contained in the plan's governing document. By making excess contributions, plan members will receive additional benefits beyond those outlined in the plan's governing document.

Recommendation: We recommend that the municipality reimburse the \$3,028 of excess state aid received in the years 2011 and 2012 to the Commonwealth. The township, with the assistance of its solicitor, should determine whether the reimbursement should be withdrawn from the members' accounts or be made from the township's general fund. A check, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that in the future, plan officials reconcile the township's annual state aid allocation and municipal contributions made to the pension plan with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

HARRIS TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Municipal officials disagreed with the recommendation. Municipal officials stated that the overpayment of state aid was an error on part of the Commonwealth and not on the municipality and, as such, the township should be allowed to keep the overpayment.

Auditor's Conclusion: The municipality's state aid allocations for the years 2011 and 2012 were determined in accordance with the methodology outlined in Act 205. Per the criteria previously cited, the township's state aid allocations cannot exceed the plan's annual defined contribution pension costs; therefore, the finding and recommendation remain as stated.

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

SCHEDULE OF STATE AID  
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2007	None	\$ 29,787
2008	None	32,577
2009	\$ 28,152	32,525
2010	29,114	4,116
2011	33,230	1,076
2012	32,185	None

HARRIS TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Harris Township Non-Uniformed Pension Plan  
Centre County  
224 East Main Street  
Boalsburg, PA 16827

Mr. Paul Rittenhouse, Sr.	Chairman, Board of Township Supervisors
Ms. Amy Farkas	Township Manager
Mr. Walter Cheatle	Finance Director

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).