

INDEPENDENCE TOWNSHIP NONUNIFORMED PENSION PLAN

BEAVER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



INDEPENDENCE TOWNSHIP NONUNIFORMED PENSION PLAN

BEAVER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009

CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Status of Prior Finding	5
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Allocation Of State Aid In Excess Of Entitlement.....	6
Supplementary Information	8
Report Distribution List	9

ABBREVIATION

ERISA - Employee Retirement Income Security Act

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 Independence 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.

As further described in the Letter from the Auditor General included in this report, the township's nonuniformed union employees participate in the International Union of Operating Engineers, Local No. 66 Pension Plan. The Independence Township Nonuniformed Pension Plan is locally controlled by the provisions of Resolution No. 5 of 2007, which adopts a collective bargaining agreement between the township and its nonuniformed union employees. Active members are not required to contribute to the plan. The municipality is required to contribute per member \$2.15 per hour effective January 1, 2007, \$2.55 per hour effective January 1, 2008, and \$2.90 per hour effective January 1, 2009.



Board of Township Supervisors
Independence Township
Beaver County
Aliquippa, PA 15001

We have conducted a compliance audit of the Independence Township Nonuniformed Pension Plan for the period January 1, 2007, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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's nonuniformed union employees participate in the International Union of Operating Engineers, Local No. 66 Pension Plan, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Independence Township Nonuniformed Pension Plan and did not extend to the activities of the multi-employer pension plan.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Independence Township Nonuniformed 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 Independence 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Allocation
Of State Aid In Excess Of Entitlement

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

June 23, 2010

JACK WAGNER
Auditor General

INDEPENDENCE TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

- Allocation Of State Aid In Excess Of Entitlement

Township officials allocated \$3,123 of 2006 state aid to the township's defined benefit police pension plan; however, plan officials failed to reconcile the amount of 2007 state aid allocated to the nonuniformed pension plan with the pension plan's 2007 defined contribution pension costs, as further discussed in the Finding and Recommendation section of this report.

INDEPENDENCE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Allocation Of State Aid In Excess of Entitlement

Condition: As disclosed in the prior audit report, the township allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs in 2006. During the current audit period, municipal officials allocated \$3,123 of 2006 excess state aid to the township’s defined benefit police pension plan; however, plan officials failed to reconcile the amount of 2007 state aid allocated to the nonuniformed pension plan with the pension plan’s 2007 defined contribution pension costs, as illustrated below:

State aid allocation	\$	22,455
Less: Actual municipal pension costs		(20,848)
Excess state aid	\$	1,607

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 plan 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 ensure full compliance with the prior audit recommendation.

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. The township does have the option to allocate the excess state aid to its defined benefit police pension plan. If this option is not selected, the overpayment of state aid in 2007, in the total amount of \$1,607, must be returned to the Commonwealth for redistribution.

INDEPENDENCE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that municipal officials either allocate the \$1,607 of excess state aid to the township's defined benefit police pension plan or return it 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 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 the check.

Furthermore, we again 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 pension plan's annual defined contribution pension costs.

Management's Response: Municipal officials agreed with the finding without exception and indicated they would transfer the excess state aid to the township's police pension plan.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

INDEPENDENCE TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 11,752	\$ 7,272
2005	14,731	3,436
2006	17,984	None
2007	22,455	None
2008	11,114	9,440
2009	11,351	10,506

INDEPENDENCE TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Independence Township Nonuniformed Pension Plan
Beaver County
104 School Road
Aliquippa, PA 15001

Mr. Daniel V. McLaughlin Chairman, Board of Township Supervisors

Ms. Wendy Potts Fleegal 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.