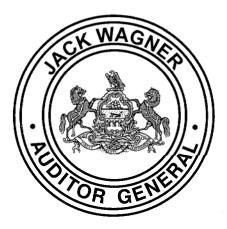
## JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN

## **BUTLER COUNTY**

# **COMPLIANCE AUDIT REPORT**

## FOR THE PERIOD

# **JANUARY 1, 2006, TO DECEMBER 31, 2008**



# JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN

## **BUTLER COUNTY**

# **COMPLIANCE AUDIT REPORT**

# FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008

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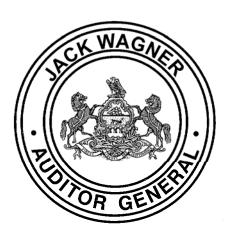
#### BACKGROUND

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 <u>et seq.</u>). 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 Jackson 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 Jackson Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 97-2. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality is required to annually contribute \$2,200 per member.



Board of Township Supervisors Jackson Township Butler County Zelienople, PA 16063

We have conducted a compliance audit of the Jackson Township Nonuniformed Pension Plan for the period January 1, 2006, to December 31, 2008. 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 findings 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. Jackson 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 Jackson 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 Jackson 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	- Partial Compliance With Prior Audit Recommendation -
	Allocation Of State Aid In Excess Of Entitlement
Finding No. 2	<ul> <li>Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid</li> </ul>

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

September 10, 2009

JACK WAGNER Auditor General

## JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN STATUS OF PRIOR FINDINGS

## Compliance With Prior Audit Recommendation

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

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Municipal officials reimbursed \$9,571 to the Commonwealth for the overpayment of state aid.

## Partial Compliance With Prior Audit Recommendation

· <u>Allocation Of State Aid In Excess Of Entitlement</u>

Municipal officials allocated \$2,200 of 2004 state aid to the township's defined benefit police pension plan; however, plan officials failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the pension plan's defined contribution pension costs in 2007, as further discussed in the Findings and Recommendations section of this report.

#### JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN FINDINGS AND RECOMMENDATIONS

#### <u>Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Allocation Of State</u> <u>Aid In Excess Of Entitlement</u>

<u>Condition</u>: 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. During the current audit period, municipal officials allocated \$2,200 of 2004 state aid to the township's defined benefit police pension plan; however, plan officials failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the pension plan's defined contribution pension costs in 2007, as illustrated below:

State aid allocation			\$ 12,100	
Less: costs	Actual	municipal	pension	(9,900)
Excess	state aid			\$ 2,200

<u>Criteria</u>: 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.

<u>Cause</u>: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

<u>Effect</u>: 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 pension plan. If this option is not selected, \$2,200 must be returned to the Commonwealth for redistribution.

#### JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN FINDINGS AND RECOMMENDATIONS

#### Finding No. 1 – (Continued)

<u>Recommendation</u>: We recommend that municipal officials either allocate \$2,200 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, 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 with the pension plan's defined contribution pension costs.

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

## <u>Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net</u> <u>Underpayment Of State Aid</u>

<u>Condition</u>: The township failed to certify 1 eligible nonuniformed employee and understated payroll by \$13,198 and certified part-time wages of 1 ineligible police officer and overstated payroll by \$3,765 in 2007 on Certification Form AG 385. In addition, the township understated the total eligible payroll for police officers by \$588 in 2009 on Certification Form AG 385.

<u>Criteria</u>: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

In addition, according 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 positions.

<u>Cause</u>: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

Furthermore, plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

#### JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN FINDINGS AND RECOMMENDATIONS

#### Finding No. 2 – (Continued)

<u>Effect</u>: 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 were based on pension costs, the township received an underpayment of state aid of \$455 as identified below:

Year	Type Of Plan	Normal Cost	-	Payroll Overstated nderstated)	Ove	ate Aid erpayment erpayment)
2007	Police Nonuniformed	10.87034% 6.13912%	\$ \$	3,765 (13,198)	\$ \$	409 (810)
2009	Police	9.13551%	\$	(588)	\$	(54)
		Net Underpay	ment	of State Aid	\$	(455)

Although the township will be reimbursed for the underpayment of state aid due to the township's certification errors, the full amount of the 2007 and 2009 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

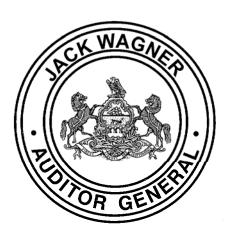
<u>Recommendation</u>: We recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension plan data.

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

## JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN SUPPLEMENTARY INFORMATION (UNAUDITED)

# SCHEDULE OF STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 14,300	None
2004	8,800	None
2005	None	\$ 15,400
2006	9,011	3,089
2007	12,100	None
2008	17,600	None



#### JACKSON TOWNSHIP NONUNIFORMED PENSION PLAN REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

## The Honorable Edward G. Rendell Governor Commonwealth of Pennsylvania

Jackson Township Nonuniformed Pension Plan Butler County 140 Magill Road Zelienople, PA 16063

Mr. Thomas West	Chairman, Board of Township Supervisors

Mr. Richard Crown 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.