



**LEWIS TOWNSHIP NONUNIFORMED  
PENSION PLAN**

**NORTHUMBERLAND COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE 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.

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 Lewis 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Lewis Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan. Active members are not required to contribute to the plan. The municipality currently contributes 10 percent of each member's wages.







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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Lewis Township  
Northumberland County  
Watsonstown, PA 17777

We have conducted a compliance audit of the Lewis Township Nonuniformed Pension Plan for the period January 1, 2009, to December 31, 2011. 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 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. 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 allocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lewis 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 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 Lewis 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 – Noncompliance With Prior Audit Recommendation – Pension Plan Not Adopted By Ordinance Or Resolution
- Finding No. 2 – Improper Ownership Of Allocated Insurance Contracts
- Finding No. 3 – Improper Loan Provision Contained In An Allocated Insurance Contract

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

March 4, 2013



EUGENE A. DEPASQUALE  
Auditor General



LEWIS TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Custodial Account Transactions Not Adequately Monitored By The Municipality

During the current audit period, the township established adequate internal control procedures to ensure the plan's custodial account transactions were adequately monitored.

Noncompliance With Prior Audit Recommendation

Lewis Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Plan Not Adopted By Ordinance Or Resolution

LEWIS TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Plan Not Adopted  
By Ordinance Or Resolution

Condition: As disclosed in the prior audit report, the township established a practice of contributing 10 percent of each member’s wages to its defined contribution pension plan. The 10 percent municipal contribution rate is included in the plan’s actuarial valuation reports filed with the Public Employee Retirement Commission; however, municipal officials have not adopted the defined contribution rate or the plan’s benefit eligibility provisions through a properly executed ordinance or resolution.

Criteria: Proper internal control procedures dictate that the pension plan’s benefit provisions and eligibility requirements should be formally adopted through a municipal ordinance or resolution.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The failure to properly adopt the benefit provisions could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We again recommend that municipal officials take appropriate action to formally adopt the plan’s benefit provisions through a properly executed ordinance or resolution. The ordinance or resolution should include the following provisions:

Eligibility requirements for plan membership;

Municipal and member contribution rates; and

Eligibility requirements for retirement benefits.

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

Finding No. 2 – Improper Ownership Of Allocated Insurance Contracts

Condition: The township is funding allocated insurance contracts that improperly designate individual plan members as the owners of the contracts.

Criteria: Since premiums on these policies have been paid with state aid and municipal funds, the township should maintain ownership of the allocated insurance contracts to ensure the plan’s assets are adequately safeguarded.

LEWIS TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials were unaware of the risks of the improper ownership of the contracts.

Effect: Continued improper ownership of the allocated insurance contracts results in the plan's assets not being adequately safeguarded and could result in premature benefit withdrawals or other improper dispositions of the funds.

Recommendation: We recommend that pension plan officials take the necessary steps to change the ownership of these allocated insurance contracts from the plan members to the pension plan or municipality. If this cannot be accomplished, we recommend that the municipality implement adequate internal control procedures to ensure that the proceeds from the allocated insurance contracts are not surrendered to the plan members prior to their eligibility to receive benefits from the pension plan.

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

Finding No. 3 – Improper Loan Provision Contained In An Allocated Insurance Contract

Condition: One of the allocated insurance contracts improperly contains a provision that allows for loans to active plan members.

Criteria: Section 102 of Act 205 contain the following definitions:

“Pension plan or system”. The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A Type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not for loans to be made to active plan members.

LEWIS TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Plan officials were unaware of the loan provision contained in the allocated insurance contract.

Effect: The unauthorized loan provision violates the intent of Act 205 to only provide benefit distributions to plan members upon their retirement or termination of employment with the municipality.

Recommendation: We recommend that municipal officials take appropriate action to eliminate the unauthorized loan provision from the allocated insurance contract at their earliest opportunity to do so.

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



LEWIS TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 6,149	None
2007	5,904	\$ 519
2008	6,150	None
2009	6,224	None
2010	6,247	None
2011	6,223	None



LEWIS TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Lewis Township Nonuniformed Pension Plan  
Northumberland County  
1428 Rovendale Drive  
Watsontown, PA 17777

Mr. Ronald Knopp                      Chairman, Board of Township Supervisors

Ms. Lucinda Bomberger              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](http://www.auditorgen.state.pa.us).