

**LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN**

**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2010, TO DECEMBER 31, 2010**





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### ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System



## 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 London Britain 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The London Britain Township Nonuniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 07-1. Active members are required to contribute 3 percent of compensation to the plan. The municipality is required to contribute 3 percent of each member's compensation.





Board of Township Supervisors  
London Britain Township  
Chester County  
Kemblesville, PA 19347

We have conducted a compliance audit of the London Britain Township Nonuniformed Pension Plan for the period January 1, 2010, to December 31, 2010. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. The London Britain Township Nonuniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 London Britain 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the London Britain 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 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

Finding No. 3 – Failure To Appoint A Chief Administrative Officer

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

May 9, 2011

JACK WAGNER  
Auditor General

LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the nonuniformed pension plan's pension costs for full-time plan members in the year 2010 as illustrated below:

State aid allocation	\$ 5,516
Municipal pension costs for full-time plan members	<u>(4,548)</u>
Excess state aid	<u>\$ 968</u>

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.

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees.

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months.

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to reconcile the township's state aid allocation with the plan's actual pension costs attributable to full-time plan members.

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. Consequently, the overpayment of state aid in the year 2010, in the total amount of \$968, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$968 overpayment of state aid received in the year 2010 to the Commonwealth from the nonuniformed pension plan. 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 evidence of payment.

Furthermore, we recommend that, in the future, plan officials reconcile the township's annual state aid allocation with the plan's annual pension costs attributable to full-time members.

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

LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan for the year 2010, as illustrated below:

Actual municipal pension costs for all members	\$ 6,880
Employee forfeitures available	<u>(1,325)</u>
Adjusted actual municipal pension costs	5,555
Allowable state allocation (see Finding No. 1)	<u>4,548</u>
Municipal contributions required to fund plan	<u><u>\$ 1,007</u></u>
Actual municipal contributions made	\$ 1,680
Municipal contributions required to fund plan	<u>(1,007)</u>
Excess municipal contributions	<u><u>\$ 673</u></u>

Criteria: The township is required to contribute 3 percent of each member’s salary. Since PMRS will not authorize the reallocation of any employee forfeiture in 2009 or for any years in the future, employee forfeitures must be used to satisfy employer contributions due to the plan.

Cause: The township was unaware that employee forfeitures should be used to offset municipal contributions due to the plan.

Effect: The township’s excess municipal contributions, excess state aid allocated to the pension plan, remaining employee forfeitures and accumulated interest has resulted in a \$1,897 unallocated reserve fund balance as of December 31, 2010.

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 unallocated reserve fund at this time.

Recommendation: We recommend that the township transfer the excess municipal contributions previously made which are currently held in the plan’s unallocated reserve account to the township’s general fund. In addition, any interest income earned on the excess municipal contributions held in the unallocated reserve fund should also be transferred to the general fund.

LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, we recommend that after the Commonwealth is reimbursed for the excess state aid received (see Finding No. 1), any remaining employee forfeitures in the unallocated reserve fund should be applied to offset future municipal contributions until the fund is totally liquidated.

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

Finding No. 3 – Failure To Appoint A Chief Administrative Officer

Condition: Municipal officials did not appoint a chief administrative officer (CAO) for the pension plan by ordinance, resolution or by a motion recorded in the minutes of a council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Plan officials were unaware of the need to appoint a CAO for the pension plan in accordance with Act 205 provisions.

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we recommend that the CAO be formally appointed by ordinance, resolution or motion recorded in the minutes of a council meeting. Such ordinance, resolution or motion should detail the CAO's responsibilities and be filed with other plan documents.

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

LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2007	None	\$ 6,908
2008	None	7,350
2009	None	7,660
2010	\$ 5,516	1,680



LONDON BRITAIN TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

London Britain Township Nonuniformed Pension Plan  
Chester County  
P.O. Box 215  
Kemblesville, PA 19347

Ms. Aileen Parrish	Chairman, Board of Township Supervisors
Ms. Nette Stejskal	Treasurer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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).