

**LOWER MILFORD TOWNSHIP POLICE PENSION PLAN**

**LEHIGH COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

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





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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 Lower Milford Township Police 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 Lower Milford Township Police Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 39 of 2006, as amended, adopted pursuant to Act 69. Active members are not required to contribute to the plan. The municipality is required to contribute 12 percent of each member's compensation.





Board of Township Supervisors  
Lower Milford Township  
Lehigh County  
Coopersburg, PA 18036

We have conducted a compliance audit of the Lower Milford Township Police 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 this objective.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Milford Township Police 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 Lower Milford Township Police 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 – Improper Receipt Of State Aid

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

July 12, 2011

JACK WAGNER  
Auditor General

LOWER MILFORD TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Improper Receipt Of State Aid

Condition: In 2009, the township improperly received a \$4,710 state aid allocation for its police pension plan. Since the police pension plan was established on November 16, 2006, pursuant to Act 205, it was not eligible for a state aid allocation until 2010.

Criteria: Section 402(d) of Act 205 states that pension plans established subsequent to December 18, 1984, must be maintained for at least three plan years before becoming eligible for state aid. Furthermore, Section 102 of Act 205 defines plan year as “a calendar year commencing on January 1 and ending on December 31”.

Cause: Although plan officials indicated a plan effective date of January 1, 2006, on the Certification Form AG 385 filed in 2009, the township did not actually begin to fund the plan until November 16, 2006.

Effect: The township improperly received a \$4,710 state aid allocation in 2009 before they had funded the police pension plan for three calendar years.

In addition, since the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the township return the excess 2009 state aid allocation in the amount of \$4,710 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 evidence of payment.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the plan.

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

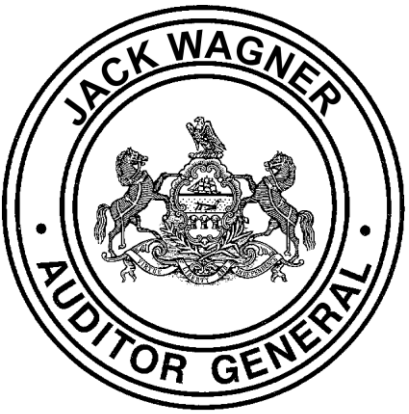
LOWER MILFORD TOWNSHIP POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$4,710. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, at a rate earned by the pension 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.

LOWER MILFORD TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	None	\$ 615
2007	None	4,565
2008	None	4,710
2009	\$ 4,710	2,204
2010	8,452	974



LOWER MILFORD TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Lower Milford Township Police Pension Plan  
Lehigh County  
7607 Chestnut Hill Church Road  
Coopersburg, PA 18036

Ms. Donna L. Wright	Chairperson, Board of Township Supervisors
Ms. Ellen L. Koplín	Township Manager
Ms. Maureen Kinney	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).