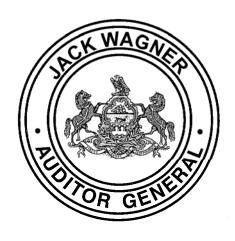
LOWER MOUNT BETHEL TOWNSHIP NONUNIFORMED PENSION PLAN NORTHAMPTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



LOWER MOUNT BETHEL TOWNSHIP NONUNIFORMED PENSION PLAN NORTHAMPTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009

CONTENTS

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

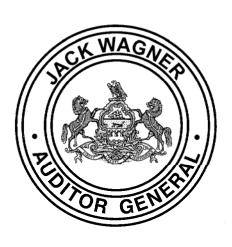
BACKGROUND

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 Mount Bethel 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 Lower Mount Bethel Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a money purchase pension plan agreement dated December 26, 2000, as amended. 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 contribute 5 percent of each member's compensation per year.



Board of Township Supervisors Lower Mount Bethel Township Northampton County Martins Creek, PA 18063

We have conducted a compliance audit of the Lower Mount Bethel 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Mount Bethel 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 Lower Mount Bethel 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 - Receipt 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 Lower Mount Bethel Township and, where appropriate, their responses have been included in the report.

August 27, 2010

JACK WAGNER Auditor General

LOWER MOUNT BETHEL TOWNSHIP NONUNIFORMED PENSION PLAN STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

· Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the municipality reimbursed \$1,360 to the Commonwealth for the excess state aid received in 2005; however, plan officials failed to calculate and pay the required interest due to the Commonwealth. In addition, the township received state aid in excess of the nonuniformed pension plan's defined contribution pension costs in the year 2009 as further discussed in the Finding and Recommendation section of this report.

LOWER MOUNT BETHEL TOWNSHIP NONUNIFORMED PENSION PLAN FINDING AND RECOMMENDATION

<u>Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement</u>

<u>Condition</u>: As disclosed in the prior audit report, the township received state aid in excess of the nonuniformed pension plan's defined contribution pension costs in 2005. During the current audit period, the municipality reimbursed \$1,360 to the Commonwealth for the excess state aid received in 2005; however, plan officials failed to calculate and pay the required interest due to the Commonwealth.

In addition, the township received state aid in excess of the nonuniformed pension plan's defined contribution pension costs in the year 2009, as illustrated below:

State aid allocation	\$ 8,452
Forfeiture applied	709
Less: actual municipal pension costs	(7,527)
Excess state aid	\$ 1,634

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, Article IX, Section 9.3 of the money purchase pension plan agreement states, in part:

In the case of any Participant who is not 100% vested in all of his Plan accounts, the non-vested portion of the Participant's Plan accounts shall be forfeited. Amounts forfeited shall be applied to reduce Employer Contributions to the Plan...

<u>Cause</u>: Municipal officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation. In addition, plan officials failed to annually reconcile the amount of state aid allocated to the pension plan with the plan's actual defined contribution pension costs after the application of employee forfeitures.

LOWER MOUNT BETHEL TOWNSHIP NONUNIFORMED PENSION PLAN FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Effect</u>: It is this department's opinion that because 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 2009, in the total amount of \$1,634, must be returned to the Commonwealth for redistribution.

<u>Recommendation</u>: We again recommend that the interest due for the excess state aid in the year 2005, compounded annually from date of receipt to date of repayment, at a rate earned by the plan, be reimbursed to the Commonwealth.

Furthermore, we recommend that the municipality return the \$1,634 of excess state aid received in the year 2009 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 calculations must be submitted along with evidence of payment.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and any employee forfeitures applied with the plan's annual defined contribution pension costs.

<u>Management's Response</u>: Municipal officials agreed with the finding without exception. Subsequent to the audit period, the township reimbursed \$1,747 to the Commonwealth for the interest due on the excess state aid received in 2005 and the excess state aid received and interest due for the year 2009.

<u>Auditor's Conclusion</u>: Based on the management response, it appears municipal officials have partially complied with the finding recommendation. Full compliance will be evaluated during our next audit of the plan.

LOWER MOUNT BETHEL TOWNSHIP NONUNIFORMED PENSION PLAN SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 1,168	\$ 991
2005	None	None
2006	2,861	2,934
2007	5,867	1,547
2008	8,368	None
2009	8,452	None

LOWER MOUNT BETHEL TOWNSHIP NONUNIFORMED PENSION PLAN REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell Governor Commonwealth of Pennsylvania

Lower Mount Bethel Township Nonuniformed Pension Plan Northampton County 2004 Hutchison Avenue Martins Creek, PA 18063

Ms. Susan Disidore Chairperson, Board of Township Supervisors

Ms. Lori A. Stauffer 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.