



**LOWER TOWAMENSING TOWNSHIP
NONUNIFORMED PENSION PLAN**

CARBON 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



LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN

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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 Lower Towamensing 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 Lower Towamensing Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 03-136, adopted pursuant to Act 15.





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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Lower Towamensing Township
Carbon County
Palmerton, PA 18071

We have conducted a compliance audit of the Lower Towamensing 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 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 the objective 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 contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The Lower Towamensing 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 Lower Towamensing 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 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 objective.

The results of our tests indicated that, in all significant respects, the Lower Towamensing 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 – Unauthorized Pension Benefit

As previously noted, the objective of our audit of the Lower Towamensing Nonuniformed Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. For example, **the plan's funded ratio went from 102.3% as of January 1, 2007, to a ratio of 59.7% as of January 1, 2011**, which is the most recent date available. Based on this information, the Public Employee Retirement Commission issued a notification that the township is currently in Level II moderate distress status. We encourage township officials to monitor the funding of the nonuniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Lower Towamensing Township and, where appropriate, their responses have been included in the report.



March 5, 2013

EUGENE A. DEPASQUALE
Auditor General



LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Unauthorized Pension Benefit

Condition: The pension benefit determination for the former township secretary/treasurer was based in part on inflated wages that were not authorized to be paid by the township. The former secretary/treasurer was convicted on the charge of Theft By Unlawful Taking (F3) under Section 3921(b) of Title 18 of the Pennsylvania Crimes Code (it should be noted that this offense is not covered under Act 140, the Public Employee Pension Forfeiture Act). The former secretary/treasurer began receiving a \$383 monthly pension benefit effective September 19, 2010. The pension benefit was based, in part, on wages reported to PMRS by the former secretary/treasurer that were in excess of the authorized wages she was entitled to receive. Per township records, the authorized annual salary for the secretary/treasurer was \$34,112 in 2008 and \$35,500 in 2009, which pro-rated for the length of time she was actively employed in 2009 would be approximately \$12,644. However, the salaries that were reported to PMRS for the years 2008 and 2009 were \$55,580 and \$16,560, respectively.

Criteria: Ordinance No. 03-136, at Section V, No. 3, states:

Basic Benefit: The basic annual benefit shall be equal to two percent (2%) of the member's final salary multiplied by all years of credited service. Provided however, in no event shall the basic benefit exceed seventy percent (70%) of the member's final salary.

In addition, Ordinance No. 03-136, at Section V, No. 4, states:

Final Salary: The final salary shall be the average annual compensation earned and paid during the member's final three (3) consecutive years of employment, or if not so long employed, then the average annual compensation earned and paid during the whole period of such employment.

Cause: The township failed to establish adequate internal control procedures to ensure that the pensionable wages reported to PMRS were the wages authorized to be paid to the former secretary/treasurer.

Effect: The former township secretary/treasurer is receiving an excess monthly pension benefit of approximately \$84 per month.

Recommendation: We recommend that municipal officials work with PMRS to review the retiree's pension benefit and make any adjustments deemed necessary at their earliest opportunity to do so.

LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management’s Response: As indicated to the auditor at the time of the exit conference, the township did not have any objections to the auditor’s explanation. The township’s concern was that the finding of “unauthorized pension benefit” is not defined. The auditor had pointed out that the former township secretary/treasurer’s pension benefit was based in part upon earnings that she was not scheduled to receive. For example, the auditor showed the township that the average earnings as calculated by PMRS were approximately \$40,000. We know that is not correct because her average earnings should have been substantially lower. The former secretary/treasurer had stolen money from the township and pleaded guilty to those charges. The township showed the auditor a letter dated August 23, 2010 to PMRS in which the township pointed out to PMRS that her salary for 2008 was \$34,112 and her salary for 2009 was scheduled to be \$35,500. She only worked until May 4, 2009.

Accordingly, if PMRS calculated the pension benefit based upon the earnings that the former secretary/treasurer had reported, we would agree that they are too high and should be unauthorized. The township had on several occasions notified PMRS that the earnings reported by the former secretary/treasurer were inflated and should not be used.

Auditor’s Conclusion: The Department appreciates the township’s efforts to comply with the finding recommendation and encourages the township to continue to work with PMRS to achieve a mutually acceptable resolution. Compliance will be evaluated during our next audit of the plan.

LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2007, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 16,728	\$ 16,356	\$ (372)	102.3%	\$ 30,712	(1.2%)
01-01-09	31,466	53,372	21,906	59.0%	57,685	38.0%
01-01-11	39,622	66,329	26,707	59.7%	37,102	72.0%

LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 4,898	100.0%
2007	5,713	100.0%
2008	5,889	100.0%
2009	6,084	100.3%
2010	None	N/A
2011	11,127	100.0%

LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
* Includes inflation at	3.0%
Cost-of-living adjustments	3.0%, where applicable

LOWER TOWAMENSING TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lower Towamensing Township Nonuniformed Pension Plan
Carbon County
595 Hahn's Dairy Road
Palmerton, PA 18071

Mr. Brent M. Green	Chairman, Board of Township Supervisors
Mr. James R. Nanovic	Township Solicitor
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.