

**NEWLIN TOWNSHIP NONUNIFORMED PENSION PLAN**

**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2007**





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## CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Finding and Recommendation:	
Finding – Failure To File Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	5
Supplementary Information .....	7
Report Distribution List .....	11



## 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 Newlin 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 Newlin Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a resolution effective January 1, 2000.





Board of Township Supervisors  
Newlin Township  
Chester County  
Coatesville, PA 19320

We have conducted a compliance audit of the Newlin Township Nonuniformed Pension Plan for the period January 1, 2007, to December 31, 2007. 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 an internal control structure to provide reasonable assurance that the Newlin Township Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township's compliance with those requirements. 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 Newlin 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 – Failure To File Certification Form AG 385 Resulting In  
An  
Underpayment 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 Newlin Township and, where appropriate, their responses have been included in the report.

November 14, 2008

JACK WAGNER  
Auditor General

NEWLIN TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To File Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township established the nonuniformed pension plan through the adoption of a resolution, effective January 1, 2000. Therefore, the township was eligible to receive state aid allocations for the nonuniformed pension plan beginning in 2003. However, the township failed to file Certification Form AG 385 for the years 2003 through 2006, and therefore did not certify the 1 eligible nonuniformed employee (1 unit) on Certification Form AG 385.

Criteria: Section 402(d) of Act 205 states:

**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 and provides pension cover-age for that employee or those employees by a pension plan which was established and maintained on the effective date of this act or which was established subsequent to the effective date of this act and has been maintained for at least three plan years, shall be entitled to receive general municipal pension system State aid.

Furthermore, pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the township would begin to file Certification Form AG 385 and receive state aid allocations for the nonuniformed pension plan.

NEWLIN TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Since the township’s state aid allocations would have been based on unit value, the effect of the township’s failure to file Certification Form AG 385 is identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2003	1	\$ 2,894	\$ 2,894
2004	1	\$ 2,911	\$ 2,911
2005	1	\$ 2,927	\$ 2,927
2006	1	\$ 3,089	<u>\$ 3,089</u>
Total Underpayment Of State Aid			<u><u>\$ 11,821</u></u>

Although the township will be reimbursed for the underpayment of state aid, the failure to file Certification Form AG 385 resulted in the township not having state aid allocations available to fund the pension plan in accordance with Act 205 funding requirements.

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure that future Certification Forms AG 385 are filed timely in accordance with Act 205 requirements.

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

NEWLIN 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, 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)]
01-01-03	\$ 13,216	\$ 52,998	\$ 39,782	24.9%	\$ 39,424	100.9%
01-01-05	26,470	70,514	44,044	37.5%	54,875	80.3%
01-01-07	42,104	69,690	27,586	60.4%	46,019	59.9%

NEWLIN 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.

NEWLIN 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
2002	\$ 5,415	100.0%
2003	5,503	100.0%
2004	6,692	100.0%
2005	6,774	100.0%
2006	7,612	100.0%
2007	7,104	100.0%

NEWLIN 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	19 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	6.0%
Projected salary increases *	4.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



NEWLIN TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Newlin Township Nonuniformed Pension Plan  
Chester County  
1572 Embreeville Road  
Coatesville, PA 19320

Mr. Robert Pearson	Chairman, Board of Township Supervisors
Ms. Cynthia Olliff	Chief Administrative Officer

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).