



**NORTH BEAVER TOWNSHIP NONUNIFORMED
PENSION PLAN**

LAWRENCE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL

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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 North Beaver 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 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 North Beaver Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2001-12-10-1, as amended. Active members are not required to contribute to the plan, but may contribute an amount equal to 10 percent of monthly compensation. For the year 2010, the municipality was required to contribute 8 percent of each participant's total compensation. For the years 2011 and 2012, the municipality was required to contribute 10 percent of each participant's total compensation.



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
North Beaver Township
Lawrence County
New Castle, PA 16102

We have conducted a compliance audit of the North Beaver Township Nonuniformed Pension Plan for the period January 1, 2010, to December 31, 2012. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings 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. 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 allocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has an immaterial amount of reportable assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the North Beaver 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 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 objectives.

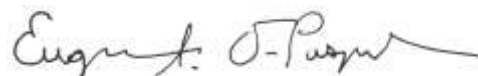
The results of our tests indicated that, in all significant respects, the North Beaver Township Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – 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 or conclude on it and, accordingly, express no form of assurance on it.

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



EUGENE A. DEPASQUALE
Auditor General

May 8, 2013

NORTH BEAVER TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

North Beaver Township has complied with the prior audit recommendations concerning the following:

- Restated Plan Document Not Adopted By Ordinance

The board of township supervisors adopted the plan's governing document with the passage of Ordinance No. 2011-3-7-1.

- Failure To Properly Fund Member Accounts

Municipal officials deposited the employer contributions due to the members' accounts.

NORTH BEAVER TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township overstated plan members’ payroll by \$1,175 on the Certification Form AG 385 filed in 2010 by including supervisor meeting pay. In addition, the township certified one ineligible nonuniformed employee and overstated plan members’ payroll by \$22,232 on the Certification Form AG 385 filed in 2011. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

In addition, pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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. Because the township’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

| <u>Year</u> | <u>Normal Cost</u> | <u>Payroll Overstated</u> | <u>State Aid Overpayment</u> |
|--------------------------------|--------------------|---------------------------|------------------------------|
| 2010 | 8.0% | \$ 1,175 | \$ 94 |
| 2011 | 8.0% | \$ 22,232 | \$ 1,779 |
| Total Overpayment Of State Aid | | | <u><u>\$ 1,873</u></u> |

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

NORTH BEAVER TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$1,873, be returned 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 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. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials disagreed with the finding. According to municipal officials, the plan member who was certified in 2011 terminated employment in May of 2010; however, his final pay included accumulated vacation and unused sick days which would carry his tenure beyond the six month certification requirement.

Auditor’s Conclusion: According to the beneficiary payment request form signed by the plan’s chief administrative officer, the plan member was considered retired effective June 8, 2010; therefore, based on the criteria previously cited, the finding and recommendation remain as stated.

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs in the year 2010, as illustrated below:

| | |
|------------------------------------|-----------------|
| State aid allocation | \$ 14,892 |
| Excess state aid per Finding No. 1 | (94) |
| Actual municipal pension costs | <u>(12,508)</u> |
| Excess state aid | <u>\$ 2,290</u> |

It was noted that \$385 of the municipal pension costs were administrative expenses paid from the township’s general fund.

NORTH BEAVER TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township's state aid allocation with the plan's actual defined contribution pension costs.

Effect: 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 received in the year 2010 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$2,290 of excess state aid received in the year 2010 to the Commonwealth from the township's general fund. 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 and municipal contributions made to the pension plan with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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

NORTH BEAVER TOWNSHIP NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 2 contained in this audit report cite overpayments of state aid to the township in the total amount of \$4,163. Conditions of this nature may lead to a total withholding of state aid in the future unless those findings are 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.

NORTH BEAVER TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid Deposited | Employer Contributions |
|------------------------|---------------------|------------------------|
| 2007 | \$ 9,642 | \$ 899 |
| 2008 | 10,531 | 1,048 |
| 2009 | 11,579 | 3,313 |
| 2010 | 12,123 | None |
| 2011 | 11,080 | 3,001 |
| 2012 | 11,256 | 2,039 |

NORTH BEAVER TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

North Beaver Township Nonuniformed Pension Plan
Lawrence County
861 Mount Jackson Road
New Castle, PA 16102

Mr. Jerry W. Tilia Chairman, Board of Township Supervisors

Ms. Nellie Gagliano Secretary

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.