

**PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN**

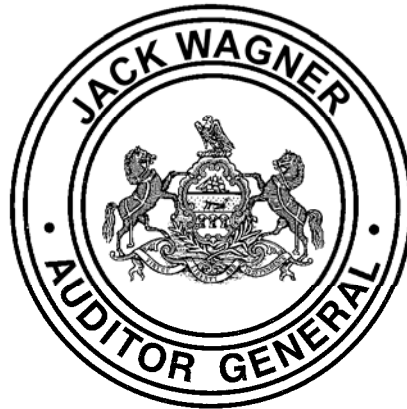
**PIKE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2009**





**PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN**

**PIKE COUNTY**

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## CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Status of Prior Finding .....	5
Findings and Recommendations:	
Finding No. 1 – Improper Funding Of Members’ Accounts.....	6
Finding No. 2 – Improper Withdrawal Of Benefit Provision Contained In The Plan Agreement.....	7
Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	8
Supplementary Information .....	10
Report Distribution List .....	11



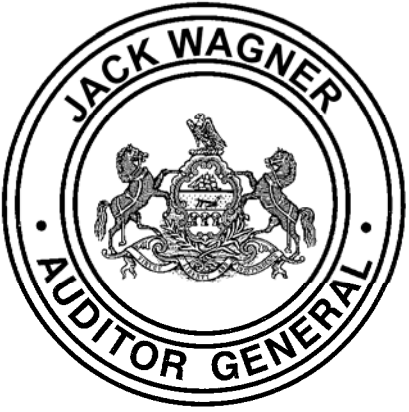
## BACKGROUND

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 Palmyra 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 Palmyra Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 107-2008. The plan is also affected by the provisions of employment contracts between the township and its nonuniformed employees. For the year 2007, active members were not required to contribute to the plan. However, members could voluntarily contribute from 1 percent to 15 percent of their compensation to the plan. For the years 2008 and 2009, active members were required to contribute from 1 percent to 15 percent of their compensation to the plan. The municipality is required to contribute 3 percent of each member's compensation.





Board of Township Supervisors  
Palmyra Township  
Pike County  
Paupack, PA 18451

We have conducted a compliance audit of the Palmyra 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 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 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 Palmyra 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 Palmyra 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 – Improper Funding Of Members’ Accounts

Finding No. 2 – Improper Withdrawal Of Benefit Provision Contained In The Plan Agreement

Finding No. 3 – Incorrect Data On 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 Palmyra Township and, where appropriate, their responses have been included in the report.

April 21, 2010

JACK WAGNER  
Auditor General

PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Palmyra Township has not complied with the prior audit recommendation concerning the following:

· Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

The township made municipal contributions in excess of contributions required to fund the pension plan in 2008, and failed to properly fund the members' accounts in 2009, as disclosed in Finding No. 1 contained in this audit report.

PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Improper Funding Of Members’ Accounts

Condition: As disclosed in the prior audit report, the township made municipal contributions in excess of contributions required to fund the pension plan in the years 2004, 2005 and 2006. During the current audit period, the township improperly funded the accounts of 4 members in 2008, two of whom did not become plan members until July 1, 2008, and January 1, 2009, respectively, and 2 members in 2009, as illustrated below:

<u>2008</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Contributions</u> <u>Due/(Overpaid)</u>
1	\$ 1,553	\$ 1,517	\$ 36
2	1,830	1,475	355
3	499	936	(437)
4	-	1,000	(1,000)
Total			<u>\$ (1,046)</u>

<u>2009</u> <u>Employees</u>	<u>Required</u> <u>Contributions</u>	<u>Actual</u> <u>Contributions</u>	<u>Contributions</u> <u>Due</u>
2	\$ 1,623	\$ 1,582	\$ 41
4	1,401	1,066	335
Total			<u>\$ 376</u>

Criteria: The plan’s governing document, Ordinance No. 107-2008, which adopts a separately executed plan agreement with the plan’s custodian, establishes the municipal contribution rate at 3 percent of the participant’s monthly compensation. Furthermore, compensation is defined as total earnings or the type of compensation that is reported in the “Wages, Tips and Other Compensation” box on Form W-2.

In addition, in order to be an active participant, an eligible employee must be continuously employed for one year and attain the age of 21. The plan entry date is the next available quarterly date.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that only eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits or receiving excess benefits that are not in accordance with the plan's governing document.

Recommendation: We recommend that the township review the individual members' accounts with the plan's consultant and make any adjustments deemed necessary to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

We also recommend that township officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in the future.

Management's Response: Municipal officials will respond to the finding upon receipt of the audit report.

Finding No. 2 – Improper Withdrawal Of Benefit Provision Contained In The Plan Agreement

Condition: Article V, Section 5.04 of the pension plan's agreement, adopted November 5, 2008, improperly contains a provision that allows a participant to withdraw any part of his vested account resulting from his employer contributions and his voluntary contributions.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not for withdrawals or loans to plan members prior to their retirement benefit eligibility.

PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials were unaware that plan assets maintained to fund pension benefits should not be wholly or partially distributed to active members of the pension plan prior to their retirement or termination of employment.

Effect: Distribution of plan assets prior to retirement violates the purpose for which state aid was allocated to the municipality and undermines the integrity of the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to eliminate the unauthorized withdrawal provisions at their earliest opportunity to do so.

Management’s Response: Municipal officials will respond to the finding upon receipt of the audit report.

Finding No. 3 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township understated payroll by \$10,634 in 2008 and \$10,780 in 2009 on Certification Form AG 385.

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.

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

PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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. Because the township’s state aid allocations were based on pension costs, the township received an underpayment of state aid of \$642 as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2008	3.0%	\$ 10,634	\$ 319
2009	3.0%	\$ 10,780	<u>\$ 323</u>
Total Underpayment of State Aid			<u><u>\$ 642</u></u>

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification errors, the full amount of the 2008 and 2009 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We 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 will respond to the finding upon receipt of the audit report.

PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 2,261	\$ 259
2005	2,324	318
2006	2,429	247
2007	2,484	403
2008	2,566	2,361
2009	3,928	1,334



PALMYRA TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Palmyra Township Nonuniformed Pension Plan  
Pike County  
115 Buehler Lane  
Paupack, PA 18451

Mr. Thomas A. Simons      Chairman, Board of Township Supervisors

Ms. JoAnn M. Rose      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).