

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



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BACKGROUND

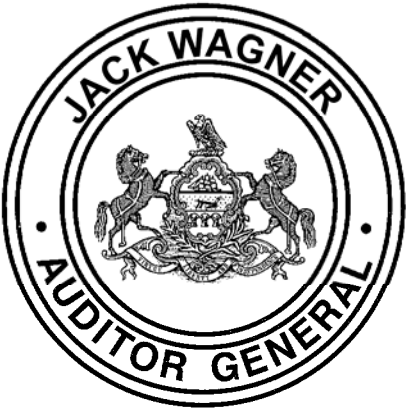
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Pittston 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 Pittston Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 702-2007, effective January 1, 2007. Active members are required to contribute 5 percent and may voluntarily contribute up to 15 percent of compensation to the plan. The municipality is required to contribute 5 percent of each active member's compensation.



Board of Township Supervisors
Pittston Township
Luzerne County
Pittston, PA 18640

We have conducted a compliance audit of the Pittston Township Nonuniformed Pension Plan for the period January 1, 2007, to December 31, 2008. 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 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Pittston 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 Pittston 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 – Allocation Of State Aid In Excess Of Entitlement

Finding No. 3 – Improper Pension Plan Funding

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 Pittston Township and, where appropriate, their responses have been included in the report.

February 3, 2010

JACK WAGNER
Auditor General

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Pittston Township has complied with the prior audit recommendations concerning the following:

- Failure To Maintain An Adequate Record-Keeping System

Municipal established accounting procedures to improve the plan's record-keeping system;

- Custodial Account Statements Not Maintained By The Municipality

Municipal officials implemented procedures to ensure the plan's custodial account statements are adequately reviewed and monitored;

- Ineligible Supervisor - Employees Participating In Pension Plan

The township's board of auditors approved the participation of the supervisor - employees in the nonuniformed pension plan; and

- Late Filing Of Actuarial Valuation Reports

The actuarial valuation report dated January 1, 2007, was filed with the Public Employee Retirement Commission in a timely manner.

PITTSTON 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 certified 2 ineligible nonuniformed employees (2 units) and overstated payroll by \$58,538 in 2009 on Certification Form AG 385.

Criteria: 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.

In addition, the plan’s governing document, Ordinance No. 702-2007, Article II, Section 2.02 states:

Any person who becomes an Employee after the Effective Date hereof shall become a Member on the earlier of the first day of the seventh month or the first day of the Plan year coincident with or next following completion of six months of full-time employment.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees and failed to follow the eligibility provisions contained in the plan’s governing document.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the township for distribution to its pension plans. 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>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
5.0%	\$ 58,538	\$ 2,927

In addition, the township used the overpayment 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.

However, since the amount of state aid deposited into the township’s police pension plan exceeded that plan’s minimum municipal obligation requirement, the reimbursement to the Commonwealth can be made from the police pension plan.

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the overpayment of state aid, in the amount of \$2,927, be returned to the Commonwealth from the township’s police 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 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 comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data. In addition, we recommend that plan officials comply with the membership eligibility provisions contained in the plan’s governing document.

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

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

Condition: In 2009, the township allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

State aid allocation	\$ 13,803
Less: Actual municipal pension costs	(11,586)
	<hr/>
Excess state aid	<u>\$ 2,217</u>

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 plan 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 were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs. In addition, the township funded the account of an ineligible employee (See Finding No. 3).

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: It is this department's opinion that, since 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. The township does have the option to allocate the excess state aid to its defined benefit police pension plan. If this option is not selected, the overpayment of state aid in 2009, in the total amount of \$2,217, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that municipal officials either allocate the \$2,217 of excess state aid to their defined benefit police pension plan or return it to the Commonwealth. This can be accomplished by liquidating the \$1,172 account balance of the ineligible non-vested employee who received a contribution in 2009 and subsequently terminated employment with the township (see Recommendation in Finding No. 3) and obtaining the balance from the township's general fund. If municipal officials choose to return the excess state aid to the Commonwealth, a check in the above 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 the check.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and municipal contributions made to the pension plan with the pension plan's actual defined contribution pension costs.

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

Finding No. 3 – Improper Pension Plan Funding

Condition: During and subsequent to the audit period, the township improperly funded the accounts of 3 employees who were not eligible to participate in the pension plan based on the service requirements contained in the plan's governing document. Two of the three employees have since terminated their employment with the township.

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Ordinance No. 702-2007, Article II, Section 2.02, states:

Any person who becomes an Employee after the Effective Date hereof shall become a Member on the earlier of the first day of the seventh month or the first day of the Plan year coincident with or next following completion of six months of full time employment.

Cause: Township officials were unaware of the eligibility provisions contained in the plan's governing document concerning the service requirements necessary to become eligible members of the pension plan.

Effect: Plan members can ultimately receive distributions from the plan that they are not entitled to.

Recommendation: We recommend that municipal officials liquidate the account of the non-vested employee who received an improper contribution in 2009 to effect compliance with the recommendation contained in Finding No. 2.

In addition, we recommend the township review the accounts of the other 2 employees who received improper contributions to ensure that no improper distributions are made to those employees.

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

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 2,865	\$ 931
2004	2,048	4,555
2005	3,326	9,028
2006	None	17,321
2007	7,289	1,653
2008	8,803	3,949

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Pittston Township Nonuniformed Pension Plan
Luzerne County
421 Broad Street
Pittston, PA 18640

Mr. Joseph Adams Chairman, Board of Township Supervisors

Mr. John A. Bonita Financial Administrator

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.