



**PITTSTON TOWNSHIP NONUNIFORMED
PENSION PLAN**

LUZERNE 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



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EUGENE A. DePASQUALE
AUDITOR GENERAL

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, 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 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 unallocated insurance contract, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

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 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 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:

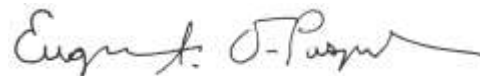
Finding No. 1 – Partial Compliance With Prior Audit Recommendation –
Incorrect Data On Certification Form AG 385 Resulting In A
Net Overpayment Of State Aid

Finding No. 2 – Partial Compliance With Prior Audit Recommendation –
Allocation 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 Pittston Township and, where appropriate, their responses have been included in the report.

May 28, 2013



EUGENE A. DEPASQUALE
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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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. 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.

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Improper Pension Plan Funding

Township officials properly liquidated the accounts of the terminated employees who received improper contributions.

Partial Compliance With Prior Audit Recommendations

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

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the township reimbursed \$2,927 to the Commonwealth for the overpayment of state aid received in 2009; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2010 and 2011 as further discussed in the Findings and Recommendations section of this report.

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials reallocated \$2,217 of its 2009 state aid allocation to the township's defined benefit police pension plan; however, plan officials failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the plan's defined contribution pension costs in 2010, as further discussed in the Findings and Recommendations section of this report.

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in the prior audit report, the township certified 2 ineligible nonuniformed employees and overstated payroll by \$58,538 on the 2009 Certification Form AG 385. During the current audit period, the township reimbursed \$2,927 to the Commonwealth for the overpayment of state aid received; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2010 and 2011.

The township overstated the total police officers payroll by \$1,125 and certified 2 ineligible nonuniformed employees and overstated their payroll by \$15,133 on the Certification Form AG 385 filed in 2010. In addition, the township understated the total payroll for nonuniformed employees by \$576 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 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, 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.

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

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2010	Police	12.27%	\$ 1,125	\$ 138
	Nonuniformed	5.0%	\$ 15,133	\$ 757
2011	Nonuniformed	5.0%	\$ (576)	<u>\$ (29)</u>
Net Overpayment of State Aid				<u><u>\$ 866</u></u>

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$866, 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, such as having at least 2 people review the data certified, 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 agreed with the finding without exception.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Allocation Of State Aid In Excess Of Entitlement

Condition: As disclosed in the prior audit report, the township allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs. During the current audit period, municipal officials allocated \$2,217 of the township’s 2009 state aid allocation to its defined benefit police pension plan. However, in 2010, the township allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs under Act 205, as illustrated below:

State aid allocation	\$ 15,189
Less: Actual municipal pension costs	<u>(11,321)</u>
Excess state aid	<u><u>\$ 3,868</u></u>

PITTSTON 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 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 failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

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; however, the township does have the option to allocate the excess state aid to its defined benefit police pension plan.

Recommendation: We recommend that municipal officials allocate the \$3,868 of excess state aid to the township's defined benefit police pension plan.

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 annual defined contribution pension costs.

Management's Response: Management indicated that they would provide a written response to this finding within 10 days; however, no such response has been provided.

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	None	\$ 17,321
2007	\$ 7,289	1,653
2008	8,803	3,949
2009	11,586	None
2010	15,189	None
2011	10,089	2,648

PITTSTON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
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 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.