

PLAINS TOWNSHIP FIREMEN'S PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 Plains Township Firemen's 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 Plains Township Firemen's Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution dated September 10, 1987, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its firefighters. Active members are required to contribute 3 percent of compensation to the plan. The municipality was required to contribute 12 percent of each member's compensation for the year 2005, and 13 percent of each member's compensation for the years 2006 and 2007.



Board of Township Commissioners
Plains Township
Luzerne County
Plains, PA 18705

We have conducted a compliance audit of the Plains Township Firemen's Pension Plan for the period January 1, 2005, 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 the objective identified above. Plains Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Plains Township Firemen's 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 Plains Township Firemen's 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 – Restated Plan Document Not Adopted By Ordinance Or Resolution

Finding No. 2 – Failure To Provide Periodic Benefit Payment Option

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

September 10, 2008

JACK WAGNER
Auditor General

PLAINS TOWNSHIP FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Restated Plan Document Not Adopted By Ordinance Or Resolution

Condition: The Plains Township Firemen's Pension Plan is currently controlled by the provisions of a resolution dated September 10, 1987, as amended. The terms, provisions and conditions of the firemen's pension plan were restated in a separately executed adoption agreement effective January 1, 2006. However, the resolution dated September 10, 1987, has not been amended to reflect the provisions of the updated plan agreement.

Criteria: Sound internal control dictates that benefit provisions should be consistent within the plan documents to avoid the payment of improper or inconsistent benefits for plan members and their beneficiaries.

Cause: Plan officials were unaware that the township should formally adopt the provisions of the restated plan agreement through a properly executed ordinance or resolution.

Effect: The failure to properly adopt the plan agreement could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We recommend that municipal officials take appropriate action to formally adopt the restated plan document through a properly executed ordinance or resolution.

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

Finding No. 2 – Failure To Provide Periodic Benefit Payment Option

Condition: The terms, provisions and conditions of the firemen's pension plan were restated in a separately executed adoption agreement effective January 1, 2006. However, the separately executed adoption agreement does not provide for a periodic benefit payment option.

PLAINS TOWNSHIP FIREMEN'S PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the adoption agreement contained a periodic benefit payment option.

Effect: Retirees do not currently have a periodic benefit payment option available to them.

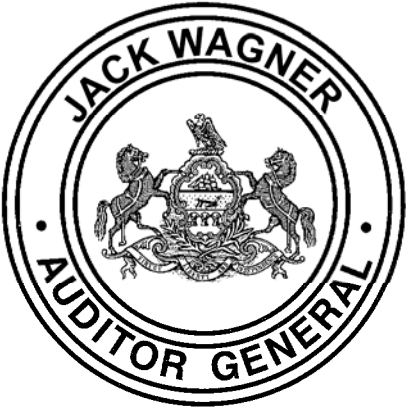
Recommendation: We recommend that municipal officials take appropriate action to ensure that the plan provides a periodic benefit payment option to retirees.

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

PLAINS TOWNSHIP FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 63,760	None
2003	46,386	\$ 22,810
2004	34,386	31,897
2005	13,474	44,881
2006	23,096	51,633
2007	21,134	59,782



PLAINS TOWNSHIP FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Plains Township Firemen's Pension Plan
Luzerne County
126 North Main Street
Plains, PA 18705

Mr. Joseph Spagnuolo, Sr. Chairman, Board of Township Commissioners

Ms. Patricia Sluhocki 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.