

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System

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 Sewickley 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

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 Sewickley Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 194, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees.



Board of Township Supervisors
Sewickley Township
Westmoreland County
Irwin, PA 15642

We have conducted a compliance audit of the Sewickley 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 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. The Sewickley Township Nonuniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 effective internal controls to provide reasonable assurance that the Sewickley 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Sewickley 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 – Failure To Update Plan’s Governing Document

Finding No. 2 – Pension Plan Benefit Changes For Supervisor-Employee Implemented Without Approval Of Township Auditors

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

July 23, 2010

JACK WAGNER
Auditor General

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Update Plan’s Governing Document

Condition: Municipal officials failed to amend the nonuniformed pension plan’s governing document to include amended benefit provisions contained in the collective bargaining agreement (CBA) effective July 1, 2008 to June 30, 2011. The amended benefit provisions were an increase in the benefit multiplier from 2.083% to 2.5% and a revised definition of the final average salary to be used in pension benefit determinations from the highest 4 consecutive quarters of compensation earned during the final 10 consecutive years of employment to the highest 4 consecutive quarters of compensation earned during the last 5 years of employment.

In addition, these changes have not been formally approved by the board of township auditors (See Finding No. 2). Furthermore, the Act 205 actuarial valuation report dated January 1, 2009, filed with the Public Employee Retirement Commission does not contain these amended benefit provisions.

Criteria: The plan’s governing document, the collective bargaining agreement and the actuarial valuation report should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the plan’s governing document and the actuarial valuation report included the benefit provisions contained in the CBA.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Because the municipality’s state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the actuary may result in the municipality receiving an incorrect allocation of state aid in the future.

In addition, the information contained in the actuarial valuation report is used to determine the municipality’s minimum municipal obligation (MMO); therefore, the incorrect data may result in an erroneous MMO calculation.

Recommendation: We recommend that municipal officials amend the plan’s governing document to adopt the benefit changes included in the CBA at their earliest opportunity to do so. In addition, the municipality should implement adequate internal control procedures to ensure that future actuarial valuation reports properly reflect the plan’s benefit provisions.

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that plan officials contact PERC to determine if a revised actuarial valuation report may be filed. If a revised report is prepared and accepted by PERC, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

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

Finding No. 2 – Pension Plan Benefit Changes For Supervisor-Employee Implemented Without Approval Of Township Auditors

Condition: The updated benefit provisions for a supervisor-employee referenced in Finding No. 1 were not formally approved by the Board of Township Auditors as required by Act 69.

Criteria: Section 606(b)(3) of Act 69 states:

No change in the nature or rate of the contributions of a defined contribution plan and no change in the benefit formula of a defined benefit plan shall be initiated by the board of supervisors with respect to a supervisor-employee without auditor approval.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the updated benefit provisions for the supervisor-employee were approved in accordance with Act 69 provisions.

Effect: The amendment of the plan's benefit provisions without the Board of Township Auditor's approval could result in unauthorized pension benefits being paid from plan assets.

Recommendation: We recommend that the express approval of the Board of Township Auditors be obtained for all amendments to the plan's benefit provisions in accordance with Act 69 provisions.

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

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-05	\$ 2,175,443	\$ 2,046,479	\$ (128,964)	106.3%	\$ 341,287	(37.8%)
01-01-07	2,295,872	1,988,575	(307,297)	115.4%	324,671	(94.6%)
01-01-09	2,375,874	2,033,597	(342,277)	116.8%	326,591	(104.8%)

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 12,324	100.0%
2005	7,229	105.1%
2006	6,473	254.6%
2007	16,054	100.1%
2008	16,549	100.0%
2009	None	N/A

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%, net of expenses
Projected salary increases *	4.5%
* Includes inflation at	3.0%
Cost-of-living adjustments	3.0%, where applicable

SEWICKLEY TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Sewickley Township Nonuniformed Pension Plan
Westmoreland County
2288 Mars Hill Road
Irwin, PA 15642

Mr. Joseph Kerber	Chairman, Board of Township Supervisors
Ms. Debra Pils	Office Manager
Ms. Susan Leukhardt	Secretary/Treasurer
Ms. Kristine Gibboney	Pennsylvania Municipal Retirement System

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.