

**SHARON TOWNSHIP NONUNIFORMED PENSION PLAN**

**POTTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





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# CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General .....	3
Status of Prior Finding .....	5
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Failure To Allocate Demutualization Compensation To Individual Members’ Accounts .....	6
Supplementary Information .....	7
Report Distribution List .....	9



## **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 Sharon 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 Sharon Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 119, as amended. Active members are required to contribute \$.25 per hour worked to the plan. The municipality is required to contribute 10 percent of each participant's gross wages.





Board of Township Supervisors  
Sharon Township  
Potter County  
Shinglehouse, PA 16748

We have conducted a compliance audit of the Sharon Township Nonuniformed Pension Plan for the period January 1, 2006, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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. The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has an immaterial amount of reportable assets.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Sharon Township Nonuniformed 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 objectives.

The results of our tests indicated that, in all significant respects, the Sharon 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Allocate Demutualization Compensation To Individual Members’ Accounts

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

June 26, 2009

JACK WAGNER  
Auditor General

SHARON TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

· Failure To Allocate Demutualization Compensation To Individual Members' Accounts

The township deposited all of the demutualization compensation into the pension plan and allocated the stock dividends to the members' accounts. However, plan officials have not allocated the shares of stock to the individual plan members as disclosed in the Finding and Recommendation section of this report.

SHARON TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Allocate  
Demutualization Compensation To Individual Members’ Accounts

Condition: As disclosed in the prior audit report, during 2002, Prudential Insurance Company of America demutualized. As part of the demutualization process, the township’s nonuniformed pension plan received 141 and 11 shares of stock, respectively, attributable to the plan’s ownership of two allocated insurance contracts purchased to fund the benefits of plan members. The plan also receives annual dividends earned on the stock. While the township has deposited the stock into the nonuniformed pension plan account and allocated the dividends received on the stock to the individual plan members’ accounts, as of the date of this audit report, the township has not allocated the stock to the individual plan members’ accounts.

Criteria: The plan’s governing document, Ordinance No. 119, as amended, adopted a defined contribution pension plan for the township’s nonuniformed employees to be funded through the purchase of allocated insurance contracts. Since the number of shares of stock received due to the demutualization was based on the allocated insurance contracts purchased for pension plan members, the shares of stock should be allocated to the individuals who were members of the plan at the time of the demutualization.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: Individuals who were plan members at the time of demutualization are being denied assets to which they are entitled. The market values of the stock at December 31, 2008, were \$4,267 and \$333, respectively.

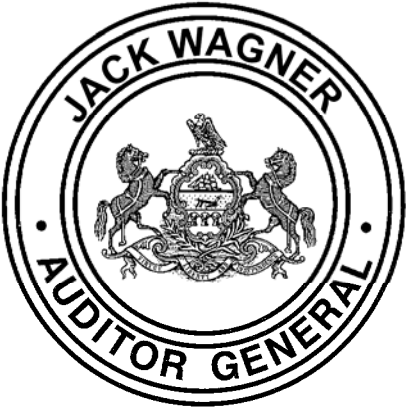
Recommendation: We recommend that the township proportionally allocate the shares of stock received to the members who were eligible to receive them at the time of the demutualization.

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

SHARON TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 4,011	\$ 766
2004	4,777	135
2005	4,912	145
2006	5,057	364
2007	5,421	244
2008	5,665	152



SHARON TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Sharon Township Nonuniformed Pension Plan  
Potter County  
R.R. 1, Box 96  
Shinglehouse, PA 16748

Mr. Shawn Metcalf	Chairman, Board of Township Supervisors
Ms. Frances Stilson	Secretary/Treasurer

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).