

SHENANGO TOWNSHIP NONUNIFORMED UNION PENSION PLAN

LAWRENCE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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ABBREVIATION

ERISA - Employee Retirement Income Security Act

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 Shenango Township Nonuniformed Union 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.

As further described in the Letter from the Auditor General included in this report, the township's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund. The Shenango Township Nonuniformed Union Pension Plan is locally controlled by the provisions of Resolution No. 2 of 2008. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed union employees. Active members are not required to contribute to the plan. The municipality was required to weekly contribute \$45 per employee in 2008, \$53 per employee in 2009 and \$61 per employee in 2010.



Board of Township Supervisors
Shenango Township
Lawrence County
New Castle, PA 16101

We have conducted a compliance audit of the Shenango Township Nonuniformed Union Pension Plan for the period January 1, 2008, to December 31, 2010. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 township's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Shenango Township Nonuniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango Township Nonuniformed Union 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 Shenango Township Nonuniformed Union 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 – Failure To Properly Fund Member 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 Shenango Township and, where appropriate, their responses have been included in the report.

September 28, 2011

JACK WAGNER
Auditor General

SHENANGO TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Member Accounts

Condition: The township did not properly fund the member accounts for the years 2008, 2009 and 2010, as illustrated below:

<u>Year</u>	<u>Required contributions</u>	<u>Actual Contributions</u>	<u>Contributions Overfunded/ (Underfunded)</u>
2008	\$ 9,630	\$ 11,925	\$ 2,295
2009	11,024	11,591	567
2010	15,860	11,651	<u>(4,209)</u>
Net Contributions Due			<u><u>\$ (1,347)</u></u>

Criteria: The plan’s governing document, Resolution No. 2 of 2008, which adopted a separately executed plan agreement with the plan’s custodian, established the municipal weekly contribution rate at \$45 per participant for the year 2008, \$53 per participant for the year 2009, and \$61 per participant for the year 2010.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the member accounts were properly funded.

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled, or could result in granting excess benefits to participants to which they are not entitled.

Furthermore, due to the township’s failure to properly fund the members’ accounts, the township must now pay interest on any delinquent member contributions due.

SHENANGO TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the township review the accounts of all plan members and take appropriate action to ensure they are properly funded in accordance with the required contribution requirements outlined in the plan’s governing documents.

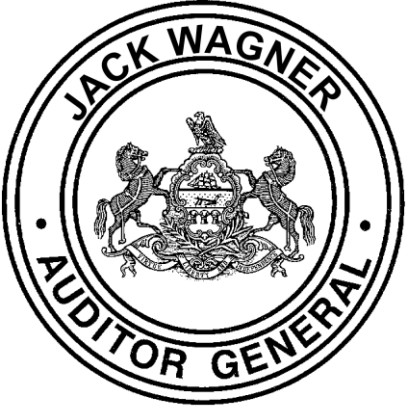
We also recommend that plan officials implement adequate internal control procedures to ensure that the member accounts are properly funded in accordance with the provisions contained in the plan’s governing documents.

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

SHENANGO TOWNSHIP NONUNIFORMED UNION PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 677	\$ 7,123
2006	6,040	3,060
2007	None	10,400
2008	9,630	2,295
2009	6,787	4,804
2010	10,800	851



SHENANGO TOWNSHIP NONUNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Shenango Township Nonuniformed Union Pension Plan
Lawrence County
1000 Willowbrook Road
New Castle, PA 16101

Mr. Larry A. Herman Chairman, Board of Township Supervisors

Mr. Brian Tanner 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.