

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN

GREENE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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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 Washington 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 Washington Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2-1996, adopted pursuant to Act 15. Active members are required to contribute 2 percent of compensation, and have the option to contribute an additional percentage, with the total of the mandatory and optional contributions not to exceed 10 percent of each member's compensation to the plan. The municipality is required to contribute 10 percent of each member's compensation.



Board of Township Supervisors
Washington Township
Greene County
Prosperity, PA 15329

We have conducted a compliance audit of the Washington 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 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. The Washington 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 Washington 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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Washington 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 –
Eligible Employees Not Participating In Pension Plan

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In
An Underpayment Of State Aid

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

December 1, 2009

JACK WAGNER
Auditor General

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$4,722 to the Commonwealth for the excess state aid received in 2003.

Partial Compliance With Prior Audit Recommendation

- Eligible Employees Not Participating In Pension Plan

During the current audit period, the township enrolled the two eligible supervisor-employees in the nonuniformed pension plan; however, no retroactive municipal contributions were deposited into one of the supervisor-employee's accounts with PMRS for the years 2004, 2005 and 2006. In addition, during the current audit period, a full-time employee hired in 2008 was not enrolled in the pension plan, as further discussed in the Findings and Recommendations section of this report.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Eligible Employees
Not Participating In Pension Plan

Condition: As disclosed in the prior audit report, there were two eligible supervisor-employees who were not members of the pension plan although they met the requirements for plan participation. During the current audit period, both of these supervisor-employees were enrolled in the pension plan. However, no retroactive municipal contributions were deposited into one of the supervisor-employee’s accounts with PMRS for the years 2004, 2005 and 2006, even though the supervisor was hired as a full-time township employee on January 2, 2004.

It was further noted during the current audit period that an additional full-time township employee was hired in 2008 and is not a member of the nonuniformed pension plan, although he meets the requirements for plan participation.

Criteria: Sections 606(b) and (b)(1) of Act 69 states, in part:

Any benefit provided to or for the benefit of a supervisor employed by the township. . . in the form of inclusion in a pension plan paid for in whole or in part by the township. . . is determined by the board of township auditors; however:

Supervisors are eligible for inclusion in township pension plans only if they are employed by the township in any employee capacity under this act. In order to be eligible for inclusion in the plans, supervisor-employees must meet the same requirements as other employees of the township who are eligible to participate in a pension plan. Pension plans shall not improperly discriminate in favor of or against a supervisor-employee.

In addition, Section 1 of the pension plan agreement with PMRS states, in part:

Coverage: This plan shall cover all permanent municipal employees, hereinafter referred to as “Member”, of the Township.

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

Effect: The accounts of the supervisor-employee hired in 2004, and the employee hired in 2008 have not been properly funded.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the township enroll the eligible full-time employee hired in 2008 in the nonuniformed pension plan. We also recommend that the township contact PMRS to determine what action needs to be taken to properly fund the accounts of the eligible supervisor-employee and the eligible full-time employee hired in 2008.

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

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$29,849 in 2006 on Certification Form AG 385. In addition, the township failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$20,640 in 2009 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the township for distribution to its pension plan. Because the township’s state aid allocation for 2006 was based on unit value, the township received an underpayment of state aid of \$3,088 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2006	1	\$ 3,088	\$ 3,088

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In 2009, the township's state aid was based on unit value in the amount of \$6,256 (2 units at \$3,128 each). However, based on the corrected information, the township was entitled to an allocation based on the plan's pension costs in the amount of \$8,618. Therefore, the township received an underpayment of state aid in the amount of \$2,362.

Therefore, as a result of the certification errors in 2006 and 2009, the township received a total underpayment of state aid in the amount of \$5,450.

Although the township will be reimbursed for the underpayment of state aid due to the township's certification errors, the full amount of the 2006 and 2009 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension plan data.

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

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 1,854	None
2004	4,573	None
2005	2,927	\$ 1,809
2006	3,089	2,123
2007	6,413	5,053
2008	8,294	None



WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Washington Township Nonuniformed Pension Plan
Greene County
112 Municipal Lane
Prosperity, PA 15329

Mr. Bryant K. Dean	Chairman, Board of Township Supervisors
Ms. Rebecca S. McCullough	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.