

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN

CLARION COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2007



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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid	5
Finding No. 2 – Custodial Account Records Not Maintained By The Municipality	5
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 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.

The Washington Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution enacted December 28, 2004, which adopts a money purchase plan adoption agreement, effective January 1, 2004. Effective January 1, 2007, active members are not required to contribute to the plan. The municipality is required to annually contribute \$2,600 for each full-time employee and \$200 for each part-time employee.



Board of Township Supervisors
Washington Township
Clarion County
Fryburg, PA 16326

We have conducted a compliance audit of the Washington Township Nonuniformed Pension Plan for the period January 1, 2007, 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 this objective.

Township officials are responsible for establishing and maintaining an internal control structure 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. 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 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Custodial Account Records Not Maintained By The Municipality

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.

February 20, 2009

JACK WAGNER
Auditor General

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township understated payroll by \$20,000 in 2007 on Certification Form AG 385.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: The total payroll amount for eligible plan members was understated due to a clerical error.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Since the township’s state aid allocation was based on pension costs, the effect of the incorrect certification of pension data on the township’s state aid allocation is identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
1.04355%	\$ 20,000	\$ 209

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2007 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that, in the future, plan officials implement adequate internal control procedures to ensure the accuracy of the information reported on Certification Form AG 385.

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

Finding No. 2 – Custodial Account Records Not Maintained By The Municipality

Condition: The municipality did not maintain adequate records of the plan’s custodial account to effectively monitor the account activity.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Plan officials were not aware of their fiduciary responsibility to monitor the custodial account transaction statements.

Effect: Inadequate monitoring of the custodial account transactions could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that the municipality obtain the transaction statements of the plan's custodial account and monitor the statements as to the accuracy and propriety of the transactions. The minimum steps that should be applied by a municipality to adequately monitor the custodial account transactions are:

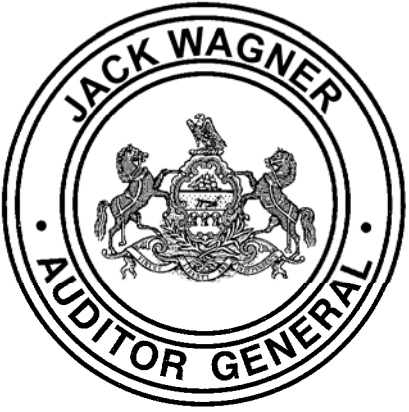
- Verify the mathematical accuracy of the account statements;
- Reconcile the Commonwealth and municipal contributions shown on the account statements to the municipality's records;
- Review investment income for accuracy and reasonableness;
- Determine if investments are in accordance with applicable laws, regulations and policies. Reconcile investment income to the related investments; and
- Review custodial statements at supervisor meetings.

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
2004	None	\$ 600
2005	None	600
2006	None	600
2007	\$ 418	4,982



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
Clarion County
P.O. Box 124
Fryburg, PA 16326

Mr. Robert E. Carbaugh Chairman, Board of Township Supervisors

Ms. Jacqui Blose Secretary

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.