

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2009



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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Finding and Recommendation:	
Finding – Failure To Properly Allocate Contributions To Members’ Accounts	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 Resolution No. 10-2000. Beginning in 2009, active members are required to contribute 5 percent of compensation to the plan. The municipality is required to annually contribute \$1,740 per member.



Board of Township Supervisors
Washington Township
Westmoreland County
Apollo, PA 15613

We have conducted a compliance audit of the Washington Township Nonuniformed Pension Plan for the period January 1, 2008, 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 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 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 no reportable assets.

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 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 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 finding further discussed later in this report:

Finding – Failure To Properly Allocate Contributions To Members’
Accounts

The contents of this report were discussed with officials of Washington Township and, where appropriate, their responses have been included in the report.

March 15, 2011

JACK WAGNER
Auditor General

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Allocate Contributions To Members’ Accounts

Condition: During the audit period, the township forwarded the required municipal and member contributions to the plan’s custodian; however, the plan’s custodian failed to properly allocate the total municipal and member contributions to the accounts of 3 plan members, as illustrated below:

<u>Employees</u>	<u>Required Contributions Made</u>	<u>Actual Contributions Allocated</u>	<u>Contributions In Excess/(Due)</u>
1	\$ 7,709	\$ 9,108	\$ 1,399
2	2,304	1,397	(907)
3	4,489	3,523	(966)
Unallocated municipal and member contributions			<u>474</u>
Total			<u><u>\$ -</u></u>

Criteria: Resolution No. 10-2000 states, in part:

. . . the Township of Washington shall contribute to the pension plan annually the sum of ONE THOUSAND SEVEN HUNDRED FORTY and 00/100 (\$1,740.00) DOLLARS per Non-uniformed Employee.

In addition, members of the plan started contributing 5 percent of compensation in the year 2009.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that municipal and member contributions were properly allocated to each plan member’s account.

Effect: The failure to properly allocate contributions to the members’ accounts could result in plan members receiving excess benefits or being denied benefits to which they are entitled in accordance with the plan’s governing document.

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the township review each member's account with the plan's custodian and ensure that all necessary adjustments are made to ensure that each plan member's account is properly funded.

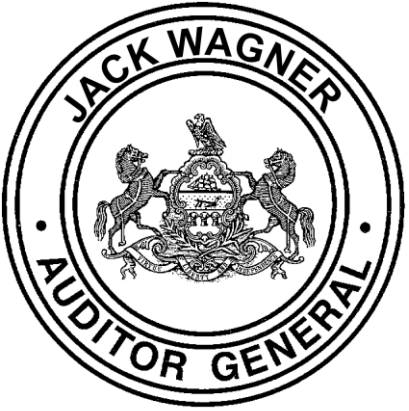
We also recommend that plan officials implement adequate internal control procedures to ensure that future municipal and member contributions are properly allocated by the plan's custodian.

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	\$ 8,700
2005	None	8,700
2006	None	8,700
2007	None	8,700
2008	\$ 3,480	5,470
2009	3,520	5,220



WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Washington Township Nonuniformed Pension Plan
Westmoreland County
285 Pine Run Church Road
Apollo, PA 15613

Mr. Richard C. Gardner	Chairman, Board of Township Supervisors
Ms. Christina I. Walker	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.