

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN

FRANKLIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Finding and Recommendation:	
Finding - Failure To Allocate Forfeitures In Accordance With The Plan's Governing Document	5
Supplementary Information	6
Report Distribution List	7

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 Ordinance No. 212. Active members are not required contribute to the plan. The municipality is required to contribute 8.5 percent of each participant's compensation who is credited with a year of service (participant works at least 35 hours per week for six consecutive months) for that plan year.



Board of Township Supervisors
Washington Township
Franklin County
Waynesboro, PA 17268

We have conducted a compliance audit of the Washington Township Nonuniformed Pension Plan for the period January 1, 2007, 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 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. Washington Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those 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 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 Allocate Forfeitures In Accordance With The Plan’s Governing Document

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 9, 2009

JACK WAGNER
Auditor General

WASHINGTON TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Allocate Forfeitures In Accordance With The Plan’s Governing Document

Condition: In 2008, the township failed to allocate forfeitures in accordance with the plan’s governing document. Instead of using available forfeitures to pay plan expenses or reduce required municipal contributions, the forfeitures were allocated to the plan members’ accounts.

Criteria: Section No. 4.1(c) of the plan’s governing document, Ordinance No. 212, states, in part:

Forfeitures may be used to pay Plan expenses. Any amount remaining after the payment of expenses shall be used to reduce the amount of the Employer contribution.

Cause: The township amended and restated the plan’s governing document with the adoption of Ordinance No. 212, enacted in 2007. Prior to 2007, the plan’s governing document allowed for the allocation of forfeitures to the remaining active members of the nonuniformed pension plan. However, the township failed to establish adequate internal control procedures to ensure the plan’s consultant was made aware of the changes made to the plan’s governing document regarding the allocation of forfeitures. Consequently, the forfeitures were allocated to the active plan members in accordance with the prior governing document.

Effect: The township was required to expend additional municipal funds to meet the minimum required employer contribution amount for the year 2008. In addition, plan members received an additional contribution that they were not entitled to pursuant to the current governing document.

Recommendation: We recommend that the township, with the assistance of its solicitor and plan consultant, determine whether the excess municipal contributions should be withdrawn from the members’ accounts and reimbursed to the township. We also recommend that the township establish adequate internal control procedures to ensure that in the future, forfeitures are allocated in accordance with the plan’s governing document.

Management Response: The township will investigate whether the excess forfeiture amounts allocated to each member’s account can be utilized as a credit toward the required 2009 contribution amounts due to each member’s account. In addition, in the future, the township will allocate forfeitures in accordance with the plan document.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

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	\$ 26,168	\$ 22,387
2004	24,366	24,676
2005	30,100	21,379
2006	45,742	4,476
2007	49,870	8,547
2008	15,985	44,133

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
Franklin County
13013 Welty Road
Waynesboro, PA 17268

Mr. Carroll Sturm	Chairman, Board of Township Supervisors
Mr. Michael Christopher	Township Manager
Ms. Karen Hargrave	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.