

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN

MIFFLIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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BACKGROUND

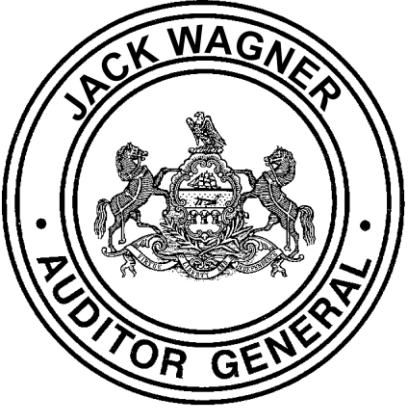
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Wayne 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 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 Wayne Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1989-3, as amended.



Board of Township Supervisors
Wayne Township
Mifflin County
McVeytown, PA 17051

We have conducted a compliance audit of the Wayne Township Nonuniformed 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 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 effective internal controls to provide reasonable assurance that the Wayne 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 Wayne 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 Overpayment Of State Aid

Finding No. 2 – Ineligible Employee Participating In Pension Plan

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

August 11, 2011

JACK WAGNER
Auditor General

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: The township certified one ineligible nonuniformed employee (1 unit) and overstated payroll by the amounts shown in the table below on the Certification Forms AG 385 filed in 2008, 2009, 2010 and 2011. The overstated payroll is attributable to a part-time employee who worked less than 35 hours per week. Payroll data for the employee in question is as follows:

<u>Certification Form AG 385 Filing Year</u>	<u>Data Year</u>	<u>Payroll Overstated</u>	<u>Annual Hours Worked Per Payroll Records</u>
2008	2007	\$ 11,529	514
2009	2008	11,855	418
2010	2009	12,206	496
2011	2010	12,569	535

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months, worked not less than 35 hours per week and must have been participating in a pension plan during the certification year.

Cause: Plan officials consider the employee in question to be a full-time employee working at least 35 hours per week and therefore eligible for certification for state aid.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan.

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Because the township's state aid allocations were based on unit value, the incorrect certification of pension data affected the township's state aid allocations, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2008	1	\$ 3,186	\$ 3,186
2009	1	3,128	3,128
2010	1	3,235	3,235
2011	1	5,596	<u>5,596</u>
Total Overpayment of State Aid			<u><u>\$ 15,145</u></u>

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the nonuniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMOs will not be fully paid.

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$15,145, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from nonuniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Furthermore, we recommend that the township maintain adequate personnel records which would include a clearly defined job description and approved pay rate in order to provide adequate supporting documentation regarding the employee's full or part-time status.

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Management's Response: Since the introduction of our pension plan in 1989 this particular finding has never been brought to our attention. The township was never made aware of any violation or wrote up for the secretary's 35 hour work week. It was noted on all previous audits that the 35 hour work week was accepted. The secretary has 20 posted office hours for our residents to come to the office. The remaining hours are spent at meetings, special meetings, emergency call outs, trips to the post office, trips to the court house, banking, telephone calls received at her home from the following: residents, SEO, sewage haulers, solicitor, surveyors, and engineers; and residents coming to her home or she will come back to the office for assessment permits, building permits, and on-lot septic reports. She has also planned and organized a Community Fair for all to enjoy. If the Community Building or pavilion is rented out she is the one that gets called if something malfunctions. She is literally the go to person no matter what time of the day.

Auditor's Conclusion: While the Department acknowledges that this issue did not result in a finding in previous audits, the Department is not precluded from taking exception to a matter that comes to our attention during our current audit of the plan. We respect the township's position that the employee's duties extend beyond the regularly scheduled office hours; however, the payroll records furnished by the township are not indicative of full-time employment based on wages paid and hours worked. Therefore, the finding and recommendation remain as stated.

Finding No. 2 - Ineligible Employee Participating In Pension Plan

Condition: An ineligible employee is participating in the pension plan in violation of the requirements prescribed in the plan's governing document. The employee is a part-time employee working less than 35 hours per week.

Criteria: Section I of Resolution No. 1989-3, dated May 1, 1989, as amended, states:

That there be and is hereby established a pension plan for all non-police employees of Wayne Township, a pension plan for all of said persons who work full time at least 35 hours a week and who are permanent employees.

Cause: Plan officials consider the employee to be a full-time employee and therefore eligible for plan membership.

Effect: The participation of an ineligible employee in the pension plan could result in unauthorized pension benefits being paid from plan assets.

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

Recommendation: We recommend that either the township amend the eligibility provision contained in the plan's governing document to permit employees who work less than 35 hours per week to be members of the plan or discontinue the participation of the ineligible employee in the nonuniformed pension plan. However, the township should be aware that plan participants working less than 35 hours per week for 6 consecutive months are not eligible to be included on Certification Form AG 385 as noted in Finding No. 1.

Furthermore, as noted in Finding No. 1, we recommend that the township maintain adequate personnel records which would include a clearly defined job description and approved pay rate in order to provide adequate supporting documentation regarding the employee's full or part-time status.

Management's Response: Since the introduction of our pension plan in 1989 this particular finding has never been brought to our attention. The township was never made aware of any violation or wrote up for the secretary's 35 hour work week. It was noted on all previous audits that the 35 hour work week was accepted. The secretary has 20 posted office hours for our residents to come to the office. The remaining hours are spent at meetings, special meetings, emergency call outs, trips to the post office, trips to the court house, banking, telephone calls received at her home from the following: residents, SEO, sewage haulers, solicitor, surveyors, and engineers; and residents coming to her home or she will come back to the office for assessment permits, building permits, and on-lot septic reports. She has also planned and organized a Community Fair for all to enjoy. If the Community Building or pavilion is rented out she is the one that gets called if something malfunctions. She is literally the go to person no matter what time of the day.

Auditor's Conclusion: While the Department acknowledges that this issue did not result in a finding in previous audits, the Department is not precluded from taking exception to a matter that comes to our attention during our current audit of the plan. We respect the township's position that the employee's duties extend beyond the regularly scheduled office hours; however, the payroll records furnished by the township are not indicative of full-time employment based on wages paid and hours worked. Therefore, the finding and recommendation remain as stated.

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of \$15,145. A condition of a finding of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-05	\$ 76,726	\$ 128,825	\$ 52,099	59.6%	\$ 70,570	73.8%
01-01-07	113,624	151,302	37,678	75.1%	80,539	46.8%
01-01-09	152,184	187,489	35,305	81.2%	73,631	47.9%

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

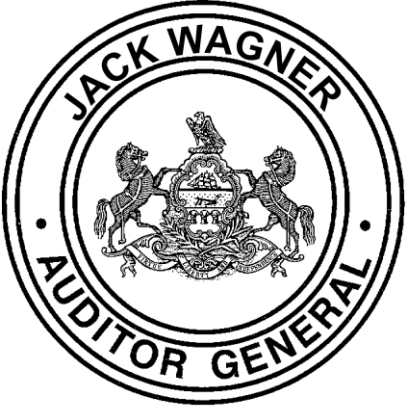
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 15,743	100.0%
2006	16,410	100.0%
2007	16,762	100.0%
2008	19,132	100.0%
2009	16,340	100.0%
2010	16,916	100.0%

WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6.5 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



WAYNE TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Wayne Township Nonuniformed Pension Plan
Mifflin County
3055 Ferguson Valley Road
McVeytown, PA 17051

Mr. Theodore Reed Chairman, Board of Township Supervisors

Ms. Denise Coder Chief Administrative Officer

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.