

WEST HANOVER TOWNSHIP NONUNIFORMED PENSION PLAN

DAUPHIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 West Hanover 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 West Hanover Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution 1995-29, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 14 percent of the previous year's participating payroll.



Board of Township Supervisors
West Hanover Township
Dauphin County
Harrisburg, PA 17112

We have conducted a compliance audit of the West Hanover Township Nonuniformed Pension Plan for the period January 1, 2005, 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 West Hanover 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 West Hanover 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 – Inconsistent Funding Provision

Finding No. 2 – Withdrawal Of Plan Assets Prior To Retirement

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

September 26, 2008

JACK WAGNER
Auditor General

WEST HANOVER TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inconsistent Funding Provision

Condition: The pension plan’s governing document, Resolution No. 1995-29, contains a funding provision that conflicts with the separately executed plan agreement with the plan’s custodian, as follows:

<u>Provision</u>	<u>Governing Document</u>	<u>Separate Plan Agreement</u>
Contribution requirement	West Hanover Township establishes the Non-Uniform Pension Plan employer contribution to the retirement pension plan at 14% of previous years participating payroll, plus any forfeitures.	Discretionary Contributions may be made for each Plan Year in an amount determined by us....shall be allocated as of the last day of the Allocation Year using Annual Pay for the Allocation Year.

During the current audit period, the township’s state aid allocation was based on a 14 percent defined contribution rate, as reported in the plan’s actuarial valuation reports.

Criteria: Section 102 of Act 205 defines a defined contribution pension plan, as follows:

A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.
(Emphasis added)

A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. The pension plan’s benefit structure should be consistent among the various plan documents.

Cause: Municipal officials restated the separately executed plan agreement with the plan’s custodian on December 31, 2002. However, plan officials failed to ensure that the restated provisions were consistent with the plan’s governing document and authorized by Act 205.

Effect: Inconsistent funding provisions could result in inconsistent or improper funding of the plan members’ accounts.

WEST HANOVER TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that plan officials ensure that the plan’s governing documents contain consistent defined contribution funding provisions which are in compliance with Act 205 provisions.

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

Finding No. 2 – Withdrawal Of Plan Assets Prior To Retirement

Condition: An active plan member received a \$213,537 distribution from the pension plan upon reaching the age of 65.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide periodic benefit payments at retirement, not account withdrawals made prior to retirement.

Cause: The plan’s separately executed plan agreement states:

“A Member may choose to have retirement benefits begin on or after his Normal Retirement Date and before he ceases to be an Employee.”

Effect: Allowing withdrawals of contract amounts prior to retirement violates the purpose for which state aid was allocated to the municipality.

WEST HANOVER TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that, in the future, plan assets not be distributed to plan members prior to their retirement. In addition, we recommend that plan officials amend the language in the separately executed plan agreement to prohibit the option of a member electing to receive retirement benefits before termination of employment with the township.

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

WEST HANOVER TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 27,630	\$ 50,266
2003	34,733	63,961
2004	43,670	65,599
2005	46,828	66,045
2006	52,505	65,052
2007	54,509	69,275

WEST HANOVER TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

West Hanover Township Nonuniformed Pension Plan
Dauphin County
7171 Allentown Boulevard
Harrisburg, PA 17112

Mr. Lawrence Hartman Chairman, Board of Township Supervisors

Ms. Elizabeth England Interim Township Manager

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.