

WEST VINCENT TOWNSHIP NONUNIFORMED PENSION PLAN

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



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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 Vincent 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 Vincent Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 42-2007, as amended. Active members are not required to contribute to the plan. During the audit period, the municipality was required to contribute 5 percent of each member's base salary.



Board of Township Supervisors
West Vincent Township
Chester County
Chester Springs, PA 19425

We have conducted a compliance audit of the West Vincent 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West Vincent 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 objectives, 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 objectives.

The results of our tests indicated that, in all significant respects, the West Vincent 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 – Noncompliance With Prior Audit Recommendation – Failure To Allocate Forfeitures From Terminated Members’ Accounts

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

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

December 14, 2009

JACK WAGNER
Auditor General

WEST VINCENT TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

West Vincent Township has complied with the prior audit recommendation concerning the following:

- Failure To Fully Fund Members' Accounts

The township deposited the contributions due, plus interest, to the members' accounts.

Noncompliance With Prior Audit Recommendation

West Vincent Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Allocate Forfeitures From Terminated Members' Accounts

WEST VINCENT TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Allocate Forfeitures From Terminated Members’ Accounts

Condition: As disclosed in the prior audit report, the township failed to allocate forfeitures remaining in the accounts of three plan members who terminated employment during the prior audit period. During the current audit period, the account balances were transferred to a forfeiture account, but the forfeiture account, totaling \$15,587, has not been used to offset township contributions.

Criteria: Section 7 of Resolution No. 7 of 1993 states that an employee who has completed 5 or more years of service shall retain a 100% nonforfeitable (vested) right to the total account balance. Furthermore, Section 5 of Resolution No. 7 of 1993 states that any nonvested monies remaining in the accounts of terminated employees shall be used to reduce the township’s contribution in the following year.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that forfeitures from terminated members’ accounts were utilized in accordance with the provisions contained in the plan’s governing document in effect at the time of the members’ terminations.

Effect: The forfeiture account has not been utilized to offset the township’s contributions during the current audit period.

Recommendation: We recommend that the township allocate the funds remaining in the forfeiture account in accordance with the provisions contained in the plan’s prior governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that future employee forfeitures are allocated in accordance with the plan’s current governing document.

Management’s Response: The prior recommendation relates to paragraph 5 of Resolution 7-1993, which was the governing document for the plan until it was changed in 2007. That section provided that any non-vested monies remaining in the accounts of terminated employees (forfeiture amounts) was to be used to reduce the Township’s contribution in the following year. Those forfeiture amounts have been segregated into a separate account and would have been available in 2007 except for the fact that the township changed the plan and the repository for the plan assets. The investment in which the forfeiture amounts had been placed by ICMA required a year’s prior notice before such funds could be released. Once the funds were released in 2009, they were kept segregated by Nationwide. The township has changed the plan and this action is no longer required by the existing plan resolution. The township understands how this issue can be corrected and stands ready to do so once the audit is completed.

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

WEST VINCENT TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The township incorrectly certified 4 police officers as also being members of the nonuniformed pension plan (4 units), and failed to certify 1 eligible nonuniformed employee (1 unit) and overstated nonuniformed payroll by \$256,839 in 2009 on Certification Form AG 385. In addition, the township understated police payroll by \$44,374 in 2009 on Certification Form AG 385.

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 and must have been participating in a pension plan during the certification year.

In addition, 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: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees and failed to follow the instructions accompanying the certification form.

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 plans.

The township's state aid for 2009 was based on the plans' pension costs in the amount of \$64,548. However, based on the corrected information, the township was only entitled to an allocation of \$56,304 (18 units at \$3,128 each). Therefore, the township received an overpayment of state aid in the amount of \$8,244 in 2009.

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

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$8,244, 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

WEST VINCENT TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also recommend that, in the future, plan officials comply 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 police or 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.

Management's Response: Each year the township completes Certification Form AG 385 and submits it to the Commonwealth. Because of prior issues and conflicting direction from representatives of the Commonwealth, the treasurer of the township contacts the Commonwealth each year for direction on how to fill out the form. The treasurer contacted the Commonwealth and received instructions on how to complete the form and we believe that the form was completed in compliance with the instructions, which appear to have been in error.

Auditor's Conclusion: As previously stated, it has been determined that the township certified incorrect data on the 2009 Certification Form AG 385. Therefore, based on the condition and the criteria previously cited, the finding and recommendation remain as stated.

WEST VINCENT TOWNSHIP NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the township in the amount of \$8,244. A condition of this nature may lead to a total withholding of state aid in the future unless the 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

WEST VINCENT TOWNSHIP NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 14,461	None
2004	10,764	None
2005	6,774	\$ 6,505
2006	11,972	None
2007	None	\$ 27,177
2008	18,604	9,756

WEST VINCENT 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 Vincent Township Nonuniformed Pension Plan
Chester County
729 St. Matthews Road
Chester Springs, PA 19425

Mr. Kenneth Miller Chairman, Board of Township Supervisors

Mr. James Wendelglass 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.