



**WHITE DEER TOWNSHIP NONUNIFORMED
EMPLOYEES DEFINED BENEFIT
PENSION PLAN**

UNION COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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CONTENTS

| | <u>Page</u> |
|---|-------------|
| Background..... | 1 |
| Letter from the Auditor General | 3 |
| Finding and Recommendation: | |
| Finding - Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan | 7 |
| Supplementary Information | 9 |
| Report Distribution List | 13 |

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 White Deer Township Nonuniformed Employees Defined Benefit 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 White Deer Township Nonuniformed Employees Defined Benefit Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 91-2, as amended. The plan has not had any active members since 1995.





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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
White Deer Township
Union County
New Columbia, PA 17856

We have conducted a compliance audit of the White Deer Township Nonuniformed Employees Defined Benefit Pension Plan for the period January 1, 2009, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the White Deer Township Nonuniformed Employees Defined Benefit 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our tests indicated that, in all significant respects, the White Deer Township Nonuniformed Employees Defined Benefit 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:

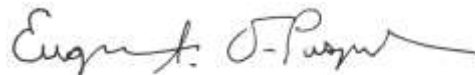
Finding – Failure To Properly Determine and Fully Pay The Minimum
Municipal Obligation Of The Plan

As previously noted, the objective of our audit of the White Deer Township Nonuniformed Employees Defined Benefit Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

| <u>Level</u> | <u>Indication</u> | <u>Funding Criteria</u> |
|--------------|-------------------|-------------------------|
| I | Minimal distress | 70-89% |
| II | Moderate distress | 50-69% |
| III | Severe distress | Less than 50% |

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. For example, **the plan's funded ratio went from 76.9% as of January 1, 2009, to a ratio of 45.5% as of January 1, 2011**, which is the most recent date available. Based on this information and the funding status of the township's nonuniformed employees defined contribution pension plan, the Public Employee Retirement Commission issued a notification that the township is currently in Level II moderate distress status. We encourage township officials to monitor the funding of the nonuniformed employees defined benefit pension plan to ensure its long-term financial stability.

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



EUGENE A. DEPASQUALE
Auditor General

April 25, 2013



WHITE DEER TOWNSHIP NONUNIFORMED EMPLOYEES
DEFINED BENEFIT PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the nonuniformed employees defined benefit pension plan for the year 2011, as required by Act 205. The MMO determined by the municipality did not include administrative expenses. Based upon an estimate prepared by this department, the municipality had an unpaid 2011 MMO balance of \$878.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's MMO was properly determined and fully paid in accordance with Act 205 requirements.

WHITE DEER TOWNSHIP NONUNIFORMED EMPLOYEES
DEFINED BENEFIT PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2011 MMO by the December 31, 2011, deadline, the municipality must add the 2011 MMO balance of \$878 to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO due to the nonuniformed employees defined benefit pension plan for the year 2011, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure that future MMOs are properly determined and fully paid in accordance with Act 205 requirements.

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

WHITE DEER TOWNSHIP NONUNIFORMED EMPLOYEES
 DEFINED BENEFIT 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. The historical information, beginning as of January 1, 2007, 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)] |
| 01-01-07 | \$ 59,362 | \$ 94,184 | \$ 34,822 | 63.0% | None | N/A |
| 01-01-09 | 67,285 | 87,456 | 20,171 | 76.9% | None | N/A |
| 01-01-11 | 36,750 | 80,842 | 44,092 | 45.5% | None | N/A |

WHITE DEER TOWNSHIP NONUNIFORMED EMPLOYEES
DEFINED BENEFIT 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.

WHITE DEER TOWNSHIP NONUNIFORMED EMPLOYEES
 DEFINED BENEFIT PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2006 | \$ 6,418 | 100.0% |
| 2007 | 22,610 | 100.0% |
| 2008 | 14,801 | 100.0% |
| 2009 | 4,655 | 100.0% |
| 2010 | 4,655 | 100.0% |
| 2011 | 2,467 | 64.4% |

WHITE DEER TOWNSHIP NONUNIFORMED EMPLOYEES
 DEFINED BENEFIT 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, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 2 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return * | 7.5% |
| Projected salary increases * | 6.5% |
| * Includes inflation at | Not disclosed |
| Cost-of-living adjustments | None assumed |

WHITE DEER TOWNSHIP NONUNIFORMED EMPLOYEES
DEFINED BENEFIT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

White Deer Township Nonuniformed Employees Defined Benefit Pension Plan
Union County
2191 Creek Road
New Columbia, PA 17856

Mr. Carroll Diefenbach Chairman, Board of Township Supervisors

Ms. Charlene Aeppli Chief Administrative Officer

This report is a matter of public record and is available online at www.auditorgen.state.pa.us.
Media questions about the report can be directed to the Pennsylvania Department of the Auditor
General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to:
news@auditorgen.state.pa.us.