

HARMAR TOWNSHIP NONUNIFORMED PENSION PLAN

ALLEGHENY 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 Harmar 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 Harmar Township Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 351. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees.



Board of Township Supervisors
Harmar Township
Allegheny County
Cheswick, PA 15024

We have conducted a compliance audit of the Harmar 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 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 finding 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 an internal control structure to provide reasonable assurance that the Harmar 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 objectives.

The results of our tests indicated that, in all significant respects, the Harmar 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 – Improper Pension Benefit Calculation

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

March 20, 2008

JACK WAGNER
Auditor General

HARMAR TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Harmar Township has complied with the prior audit recommendation concerning the following:

- Payment Of Unauthorized Survivor Benefit

During the current audit period, the unauthorized benefit payments were discontinued.

HARMAR 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 two ineligible nonuniformed employees (2 units) in 2005 and certified one ineligible police officer (2 units) and certified three ineligible nonuniformed employees (3 units) in 2007 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.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

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 plans. Since the township’s state aid allocations were based on unit value, the effect of the incorrect certification of pension data on the township’s state aid allocations is identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2005	Nonuniformed	2	\$ 2,927	<u>\$ 5,854</u>
2007	Police Nonuniformed	2 3	\$ 3,206 \$ 3,206	<u>\$ 6,412</u> <u>9,618</u>
				<u>\$ 16,030</u>
			Total Overpayment of State Aid	<u>\$ 21,884</u>

In addition, since the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to its pension plans, if the reimbursement to the Commonwealth is made from the pension plans, the plans’ MMOs will not be fully paid.

HARMAR TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$21,884, 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.

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 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: Municipal officials agreed with the finding without exception.

Finding No. 2 – Improper Pension Benefit Calculation

Condition: The township granted a survivor benefit to the spouse of a member who died while employed by the township that was not in accordance with the pension plan's governing document. Since the township failed to include the member's service for the year 2006, the calculation did not utilize the members last 60 months of compensation, the member's total accrual service at time of death and did not calculate the accrued benefit adjustment in accordance with the plan's governing document.

HARMAR TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Ordinance No. 351, at Article IV, Section 4.01 states, in part:

An Active Participant's monthly Accrued Benefit as of any date, subject to the modifications below, will be equal to the product of (a), (b) and (c) below:

- (a) An amount equal to 1.5% of his average compensation.
- (b) His expected Accrual Service on his Normal Retirement Date with his expected service on his Normal Retirement Date determined on such date assuming his employment with the Employer will continue unchanged to his Normal Retirement Date.
- (c) His Accrued Benefit Adjustment. . . .

Also, Ordinance No. 351, at Article I, Section 1.02 states:

Average Compensation means, on any given date, the average of an Employee's monthly Compensation for the 60 latest months (all months, if less than this number).

In addition, Ordinance No. 351, at Article I, Section 1.02 states, in part:

Accrued Benefit means the amount of monthly retirement benefit on the Normal Form accrued by an Active Participant as of any date. . . .

Furthermore, Ordinance No. 351, at Article I, Section 1.02 states:

Accrued Benefit Adjustment means the adjustment which shall be applied to determine a Participant's benefit. The Accrued Benefit Adjustment on any date shall be equal to the quotient (to four decimal places) of (a) divided by (b):

- (a) The Participant's Accrual Service as of such date.
- (b) The Participant's potential Accrual Service as of his Normal Retirement Date, if he remains an Eligible Employee between the date of determination and his Normal Retirement Date. The Accrued Benefit Adjustment shall not exceed 1.00.

HARMAR TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The plan is paying pension benefits to a surviving spouse which are less than those authorized by the plan's governing document.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that pension benefits were determined in accordance with the provisions contained in the plan's governing document.

Recommendation: We recommend that municipal officials recalculate the survivor's pension benefit in accordance with the provisions contained in the plan's governing document. In addition, we recommend that the survivor be paid any benefits due retroactive to her eligibility date, with interest, at a rate earned by the pension plan.

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

HARMAR 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 \$21,884. A condition 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

HARMAR 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, 2003, 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)]
01-01-03	\$ 409,655	\$ 581,941	\$ 172,286	70.4%	\$ 205,186	84.0%
01-01-05	487,585	685,318	197,733	71.1%	256,732	77.0%
01-01-07	638,377	787,438	149,061	81.1%	278,821	53.5%

HARMAR 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.

HARMAR 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
2002	\$ 5,695	109.2%
2003	5,737	107.0%
2004	6,558	411.9%
2005	30,916	100.0%
2006	44,357	100.0%
2007	41,783	100.0%

HARMAR 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	9 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

HARMAR TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Harmar Township Nonuniformed Pension Plan
Allegheny County
701 Freeport Road
Cheswick, PA 15024

Ms. Barbara Noll Chairman, Board of Township Supervisors

Ms. Annette M. Dietz 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.