

**LOWER PROVIDENCE TOWNSHIP NONUNIFORMED
DEFINED CONTRIBUTION PENSION PLAN**

MONTGOMERY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, 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 Lower Providence Township Nonuniformed Defined Contribution 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 Lower Providence Township Nonuniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of the agreement with ICMA. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of each member's salary.



Board of Township Supervisors
Lower Providence Township
Montgomery County
Eagleville, PA 19403

We have conducted a compliance audit of the Lower Providence Township Nonuniformed Defined Contribution Pension Plan for the period January 1, 2006, 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 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 this objective.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Lower Providence Township Nonuniformed Defined Contribution 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 Lower Providence Township Nonuniformed Defined Contribution 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 – Municipal Contributions Made In Excess Of Contributions Required
To Fund The 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 Lower Providence Township and, where appropriate, their responses have been included in the report.

April 8, 2009

JACK WAGNER
Auditor General

LOWER PROVIDENCE TOWNSHIP NONUNIFORMED DEFINED
CONTRIBUTION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The township made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2006</u>	<u>2008</u>
Actual municipal pension costs	\$ 62,195	\$ 86,404
Forfeitures available	<u>(10,845)</u>	<u>(7,097)</u>
Municipal contributions required to fund plan	<u>\$ 51,350</u>	<u>\$ 79,307</u>
Actual municipal contributions made	\$ 59,384	\$ 81,605
Municipal contributions required to fund plan	<u>(51,350)</u>	<u>(79,307)</u>
Excess municipal contributions	<u>\$ 8,034</u>	<u>\$ 2,298</u>

Criteria: The township is required to contribute 6 percent of each member’s salary. Since the plan’s governing document is silent on the application of employee forfeitures, the forfeitures should be used to offset municipal contributions.

Cause: The township was unaware that employee forfeitures should be used to offset municipal contributions due to the plan.

Effect: The township’s excess contributions to the pension plan combined with unapplied forfeitures and accumulated interest has resulted in a \$14,089 unallocated reserve fund as of December 31, 2008.

It is the opinion of this department that the township’s failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

LOWER PROVIDENCE TOWNSHIP NONUNIFORMED DEFINED
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FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the township transfer the excess municipal contributions previously made which are currently held in the plan’s unallocated reserve account to the township’s general fund. In addition, any interest income earned on the excess municipal contributions held in the reserve fund should also be transferred to the general fund.

We also recommend that any remaining employee forfeitures in the unallocated reserve fund be applied to offset future municipal contributions until the fund is totally liquidated.

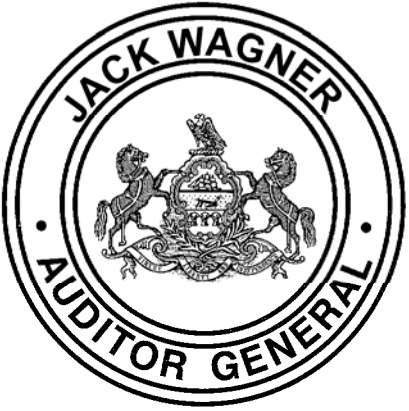
Furthermore, we recommend that municipal officials amend the plan’s governing document to provide for the proper disposition of employee forfeitures.

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

LOWER PROVIDENCE TOWNSHIP NONUNIFORMED DEFINED
CONTRIBUTION PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	None	\$ 13,350
2004	None	25,429
2005	None	45,612
2006	None	59,384
2007	None	72,459
2008	None	81,605



LOWER PROVIDENCE TOWNSHIP NONUNIFORMED DEFINED
CONTRIBUTION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Lower Providence Township Nonuniformed Defined Contribution Pension Plan
Montgomery County
100 Parklane Drive
Eagleville, PA 19403

Mr. Piero Sassu	Chairman, Board of Township Supervisors
Mr. Joseph Dunbar	Township Manager
Ms. Susan Law	Accounting 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.