



**ALLEGHENY TOWNSHIP NON-UNIFORMED  
PENSION PLAN**

**CAMBRIA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2011 TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Allegheny Township  
Cambria County  
Loretto, PA 15940

We have conducted a compliance audit of the Allegheny Township Non-Uniformed Pension Plan for the period January 1, 2011 to December 31, 2012. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions 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.
- Whether the terms of the allocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

The township has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

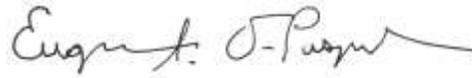
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Allegheny Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Allegheny Township Non-Uniformed 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 – Improper Distribution From Allocated Insurance Contract

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

June 4, 2014

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE  
Auditor General

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Allegheny Township Non-Uniformed 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Allegheny Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1-93, as amended, adopted pursuant to Act 69. The plan was established January 1, 1992. Active members are not required to contribute to the plan. During the current audit period, the municipality was required to annually contribute \$2,500 per member. Subsequent to the current audit period effective January 1, 2013, the municipality is required to annually contribute \$3,000 per member. As of December 31, 2012, the plan had 3 active members, no terminated members eligible for vested benefits in the future and no retirees receiving pension benefits.

ALLEGHENY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Improper Distribution From Allocated Insurance Contract**

Condition: During November 2013, township supervisors approved the withdrawal of \$8,000 by a member of the non-uniformed pension plan from his allocated insurance contract. The member, who is also the chairman of the board of township supervisors, was age 68 with 3 years of service at the time of the withdrawal.

Criteria: Ordinance No. 04-2004, which amended Ordinance No. 1-93, Article II, Section 9, Option C, provides:

Upon attaining normal retirement age (age sixty-two (62)) and at least ten (10) years participation as a full-time employee, such employee shall be entitled to receive a lump sum payment equal to 100% of the employee’s account value. In lieu of a lump-sum payment, the Township at its discretion may transfer ownership of the individual pension annuity contract from the Township to the Employee. Upon such transfer of ownership, all liability to provide retirement benefits shall be satisfied.

In addition, 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 retirement benefit payments and not to be used for distributions to active members of a pension plan prior to their retirement benefit eligibility.

Cause: Plan officials were unaware that allocated insurance contracts maintained to fund pension benefits should not be wholly or partially cash surrendered to active members of the pension plan prior to their retirement benefit eligibility.

Effect: Distributions from allocated insurance contracts prior to retirement violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of an annuitant and undermines the integrity of the pension plan.

ALLEGHENY TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that municipal officials establish adequate internal control procedures to ensure that benefit distributions are only made pursuant to the provisions contained in the plan's governing document and are not made to active members prior to their retirement benefit eligibility.

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

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

ALLEGHENY TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2007	\$ 3,947	\$ 1,053
2008	5,053	547
2009	5,700	None
2010	4,888	712
2011	5,263	2,837
2012	7,490	10

ALLEGHENY TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Allegheny Township Non-Uniformed Pension Plan  
Cambria County  
107 Storm Road  
Loretto, PA 15940

Mr. Joseph D. Krug	Chairman, Board of Township Supervisors
Mr. William Krug	Township Supervisor
Ms. Debra Hoover	Secretary/Treasurer

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