

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007

CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Finding	5
Finding and Recommendation:	
Finding – Improper Vesting Distribution.....	6
Supplementary Information	8
Report Distribution List	9

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 Colerain 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 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 Colerain Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 90-11-05-02, as amended, adopted pursuant to Act 69. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each participant's gross wages for the prior calendar year.



Board of Township Supervisors
Colerain Township
Lancaster County
Kirkwood, PA 17536

We have conducted a compliance audit of the Colerain 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*, issued by the Comptroller General of the United States.

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. 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 an internal control structure to provide reasonable assurance that the Colerain 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 Colerain 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 finding further discussed later in this report:

Finding – Improper Vesting Distribution

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

March 25, 2008

JACK WAGNER
Auditor General

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

· Failure To Fund Member's Account

The township deposited \$2,582 into the member's account.

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper Vesting Distribution

Condition: An employee terminated in 2007 with 7 years of credited service (70% vested); however, the employee improperly received a distribution of 100 percent of his account balance, resulting in a \$7,590 overpayment.

Criteria: Resolution No. 90-11-05-02 at Section 7, states:

...a participant shall have a vested interest in the contribution made on his behalf by the township according to years of qualified participation in the plan, according to the following schedule:

<u>Full Year Of Participation</u>	<u>Percentage Of Vested Interest In Contract</u>
0 through 4	None
5	50%
6	60%
7	70%
8	80%
9	90%
10	100%

Therefore, pursuant to the above schedule, the terminated employee was only entitled to a distribution in the amount of 70 percent of his account balance.

In addition, Resolution No. 90-11-05-02 at Section 11 states, in part:

Forfeitures of any amounts contributed by the Township shall not act to increase the interest of the remaining participants, but shall be credited towards current or succeeding years' contributions by the Township.

Cause: Township officials failed to establish adequate internal control procedures to ensure the plan's custodian remitted the correct payment to the terminated employee.

Effect: The terminated employee received an overpayment in the amount of \$7,590.

In addition, the amount of the overpayment is not available to reduce future municipal contributions to the plan pursuant to the provisions contained in the plan's governing document.

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the township utilize the \$7,590 as a plan forfeiture pursuant to the provisions contained in the plan’s governing document. Therefore, \$7,590 must be used to offset future municipal contributions before the application of future state aid allocations. If the forfeiture amount and state aid allocated exceed the plan’s defined contribution pension costs, the excess amount of state aid should be returned to the Commonwealth. A check in the amount determined to be excess state aid, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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 evidence of payment.

We also recommend that municipal officials monitor future distributions made from the plan to ensure they are in accordance with the provisions contained in the plan’s governing document.

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

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 8,289	\$ 992
2003	8,683	3,326
2004	11,645	3,012
2005	8,780	1,297
2006	9,266	1,632
2007	9,619	2,898

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Colerain Township Nonuniformed Pension Plan
Lancaster County
1803 Kirkwood Pike
Kirkwood, PA 17536

Mr. Walter L. Todd, Jr. Chairman, Board of Township Supervisors

Ms. Martha M. Kepler Secretary

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.