

**HAMILTON TOWNSHIP NONUNIFORMED PENSION PLAN**

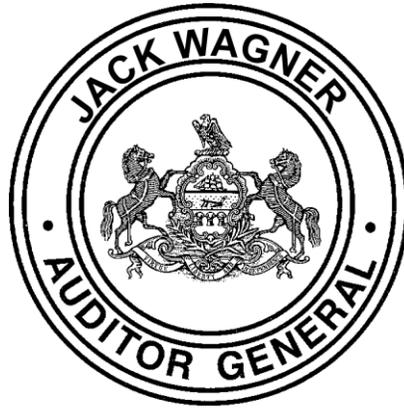
**MCKEAN COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





**HAMILTON TOWNSHIP NONUNIFORMED PENSION PLAN**

**MCKEAN COUNTY**

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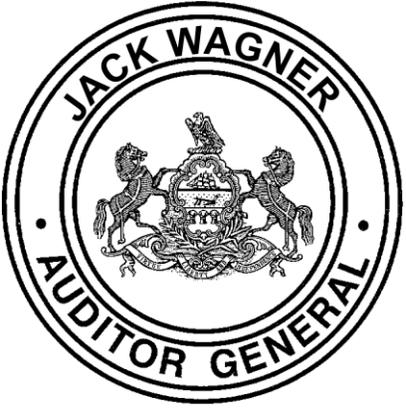
## **BACKGROUND**

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 Hamilton 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 Hamilton Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 88R-3, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's wages.



Board of Township Supervisors  
Hamilton Township  
McKean County  
Ludlow, PA 16333

We have conducted a compliance audit of the Hamilton Township Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2009. 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 the objective 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 effective internal controls to provide reasonable assurance that the Hamilton Township Nonuniformed 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 the extent necessary to satisfy the audit objective.

The results of our tests indicated that, in all significant respects, the Hamilton 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 Distribution From Allocated Insurance Contract

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

August 18, 2010

JACK WAGNER  
Auditor General

HAMILTON TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Improper Distribution From Allocated Insurance Contract

Condition: During 2008, a portion of the cash surrender value of an allocated insurance contract, in the amount of \$4,000, was improperly withdrawn and distributed to an active member of the pension plan who entered the pension plan on January 31, 2003. Although the plan member was fully vested in his account balance, he was only 27 years of age at the time he received the distribution.

Criteria: The plan’s governing document, Resolution No. 88R-3, as amended, at Section 5, states, in part:

Each full-time, permanent, non-uniformed employee of the Township of Hamilton who shall have attained 65 years of age shall be entitled to retire and to receive retirement benefits equal to the total of all employer contributions to the plan together with all earnings thereon, as shown in the participant’s account balance at the time of retirement...

Section 10, states, in part:

Cessation of a participant’s employment by the Township prior to the normal retirement date for a reason other than death or total disability shall terminate the participant’s membership in the Plan, subject, however, to the participant’s vested interest.

In addition, Section 11, states, in part:

...prior to the time of making application for said withdrawal, shall have terminated his participation in the Plan for a continuous period of two (2) years and provided that said amount withdrawn shall be adjusted according to the vesting schedule set forth in Section 6.

Furthermore, 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.

HAMILTON TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

“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.

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure that all distributions from the pension plan are made in accordance with the provisions contained in the plan’s governing document.

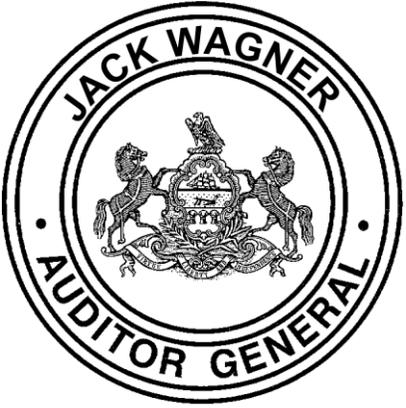
Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance with the finding recommendation will be evaluated during our next audit of the plan. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future.

HAMILTON TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 5,270	\$ 217
2005	5,487	363
2006	5,850	236
2007	6,086	374
2008	6,373	683
2009	6,256	587



HAMILTON TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Hamilton Township Nonuniformed Pension Plan  
McKean County  
2 Curtis Road  
Ludlow, PA 16333

Mr. Brian Bastow                      Chairman, Board of Township Supervisors

Ms. Rebecca Davidson              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](http://www.auditorgen.state.pa.us).