



**QUEMAHONING TOWNSHIP NONUNIFORMED
PENSION PLAN**

SOMERSET COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN

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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 Quemahoning 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 Quemahoning Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution effective January 1, 1993, as amended. Active members are not required to contribute to the plan; however, active members may contribute up to 14 percent of their compensation to the plan. The municipality is required to contribute 10 percent of each member's compensation.





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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Quemahoning Township
Somerset County
Stoystown, PA 15563

We have conducted a compliance audit of the Quemahoning Township Nonuniformed Pension Plan for the period January 1, 2009, to December 31, 2011. 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 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 findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- 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 unallocated insurance contract, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Quemahoning 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 objectives, 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 objectives.

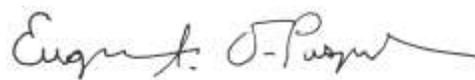
The results of our tests indicated that, in all significant respects, the Quemahoning Township Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Adoption And Approval Of Resolution Amending Plan Benefit Provisions Not Adequately Documented

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

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



April 18, 2013

EUGENE A. DEPASQUALE
Auditor General



QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Improper Use Of State Aid In Funding Of Members' Accounts

The township reimbursed \$555 to the Commonwealth for the state aid used to improperly fund members' accounts during the period January 1, 2003, to December 31, 2006.

Partial Compliance With Prior Audit Recommendation

Quemahoning Township has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$1,356 to the Commonwealth for the excess state aid received in the year 2008; however, plan officials failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the plan's defined contribution pension costs in 2010, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

Quemahoning Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Adoption And Approval Of Resolution Amending Plan Benefit Provisions Not Adequately Documented

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Adoption And Approval
Of Resolution Amending Plan Benefit Provisions Not Adequately Documented

Condition: As disclosed in the prior audit report for the years ended December 31, 2004, 2003 and 2002, a member of the pension plan who terminated employment was given a lump-sum pension benefit distribution that was not authorized by the plan's governing document. The audit report contained a recommendation that municipal officials take the necessary steps to ensure that future pension benefits were paid in accordance with the plan's governing document. As an alternative, the township could consider amending the plan's governing document to eliminate the lifetime payment requirement or to provide for a lump-sum benefit payment distribution option.

The prior audit report for the period January 1, 2005, to December 31, 2008, noted that the township adopted a resolution which permitted members who are 100 percent vested to have the option to receive a lump-sum benefit distribution. However, the resolution was only signed by the Chairman of the Board of Township Supervisors and the Township Secretary (who were both members of the plan and married to each other), the resolution was not dated, nor was any documentation provided by the township that the resolution was formally approved by the Board of Township Supervisors. In addition, there was no documentation the benefit changes contained in the resolution were formally approved by the township's board of auditors as required by Act 69. It was recommended that municipal officials, with the assistance of the township's solicitor ensure that all of the plan's benefit provisions are approved by the township's board of auditors and are included in a properly executed plan document adopted in accordance with Act 69 provisions.

During the current audit period, 3 additional employees who terminated employment with the township were given lump-sum benefit distributions, despite the fact that the plan's governing document was not properly amended to authorize such distributions.

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Regarding the documentation of resolutions adopted at board of township supervisor’s meetings, Section 605(a) of Act 69 states, in part:

The board of supervisors shall provide for recording of minutes of its proceedings and other books it may find necessary in the performance of its duties. The records shall be made available to the board of auditors during the annual audit.

Furthermore, Section 606(b) of Act 69 states, in part:

Any benefit provided to or for the benefit of a supervisor employed by the township. . . in the form of inclusion in a pension plan paid for in whole or in part by the township. . . is determined by the board of auditors. . .

In addition, with regard to benefit changes requiring township auditor approval, Section 606(b)(3) of Act 69 states:

No change in the nature or rate of the contributions of a defined contribution plan and no change in the benefit formula of a defined benefit plan shall be initiated by the board of supervisors with respect to a supervisor-employee without auditor approval.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Improperly adopted plan documents could result in inconsistent or incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials, with the assistance of the township’s solicitor, ensure that all of the plan’s benefit provisions are approved by the township’s board of auditors and are included in a properly executed plan document adopted in accordance with Act 69 provisions.

Management’s Response: Municipal officials agreed with the finding without exception. The township has drafted a new plan ordinance to be adopted at its May board of township supervisors meeting. Once the benefit provisions have been approved by the township’s auditors and adopted by the supervisors, a copy will be forwarded to the Department of the Auditor General.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid
In Excess Of Entitlement

Condition: As disclosed in the prior audit report, the township received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs for the year 2008. During the current audit period, the township reimbursed \$1,356 to the Commonwealth for the excess state aid received; however, plan officials failed to reconcile the township’s annual state aid allocation with the plan’s annual defined contribution pension costs for the year 2010.

During the current audit period, the township received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs in the year 2010, as illustrated below:

State aid allocation	\$ 14,447
Actual municipal pension costs	<u>(13,452)</u>
Excess state aid	<u><u>\$ 995</u></u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: It is this department’s opinion that because the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid received in the year 2010 must be returned to the Commonwealth for redistribution.

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the municipality return the \$995 of excess state aid received in the year 2010 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 plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we recommend that in the future, plan officials reconcile the township's annual state aid allocation and municipal contributions made to the pension plan with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 15,443	\$ 2,792
2007	16,032	2,145
2008	14,596	None
2009	14,177	137
2010	13,452	None
2011	13,452	245

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Quemahoning Township Nonuniformed Pension Plan
Somerset County
424 Forbes Road, Suite 1
Stoystown, PA 15563

Mr. Mark A. Corden	Chairman, Board of Township Supervisors
Mr. Jesse H. Shroyer	Township Supervisor
Ms. Amanda M. Wyant	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.