

CHERRYHILL TOWNSHIP NONUNIFORMED PENSION PLAN

INDIANA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



CHERRYHILL TOWNSHIP NONUNIFORMED PENSION PLAN

INDIANA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Findings and Recommendations:	
Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement.....	5
Finding No. 2 – Failure To Properly Fund Members’ Accounts	6
Supplementary Information	8
Report Distribution List	9

BACKGROUND

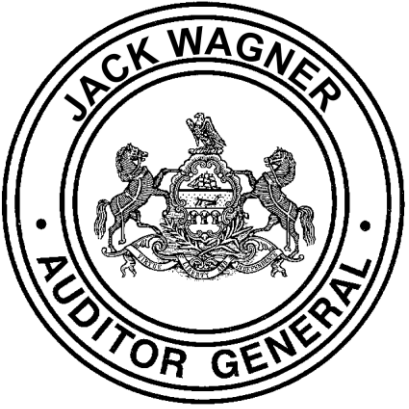
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Cherryhill 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 Cherryhill Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 119, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 5 percent of each participant's compensation.



Board of Township Supervisors
Cherryhill Township
Indiana County
Penn Run, PA 15765

We have conducted a compliance audit of the Cherryhill 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 *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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 effective internal controls to provide reasonable assurance that the Cherryhill 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 Cherryhill 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 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Failure To Properly Fund Members' Accounts

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

July 3, 2012

JACK WAGNER
Auditor General

CHERRYHILL TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs for full-time plan members in the years 2010 and 2011, as illustrated below:

	<u>2010</u>	<u>2011</u>
State aid allocation	\$ 5,188	\$ 5,172
Municipal pension costs for full-time plan members	(5,172)	(4,990)
Excess state aid	\$ 16	\$ 182

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.

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

CHERRYHILL TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to reconcile the township’s allocations of state aid to the plan’s annual defined contribution pension costs attributable to full-time plan members.

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 overpayments of state aid in the years 2010 and 2011, in the total amount of \$198, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$198 of excess state aid received in the years 2010 and 2011 to the Commonwealth from the township’s general fund. 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 plan officials reconcile the township’s annual state aid allocations with the plan’s annual defined contribution pension costs attributable to full-time members and reimburse any excess state aid received to the Commonwealth.

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

Finding No. 2 – Failure To Properly Fund Members’ Accounts

Condition: In 2011, the township did not fully fund the accounts of 2 plan members in the amount of \$443, as illustrated below:

<u>Employee Hire Date</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
02/05/78	\$ 304	\$ -	\$ 304
12/06/10	\$ 139	\$ -	\$ 139
		Total	<u>\$ 443</u>

Furthermore, the township made excess municipal contributions of \$117 to an employee in 2010 and excess municipal contributions of \$55, \$48 and \$45, respectively, to 3 employees in 2011.

CHERRYHILL TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section 2 of the pension plan’s governing document states, in part:

If you are a full-time employee of the Company, you automatically become a member of the Pension Plan on the first day of the month after completing 10 months of service and after becoming age 21 (nearest birthday).

To be considered full-time, you must work 1,000 hours during your first 12 months of service or 1,000 hours during any plan year which starts on January 1, and ends on December 31. . . .

In addition, Section 4 states, in part:

Each year the Employer will contribute a portion of your earnings to the plan.

5% of your earnings will be credited to your account. . . .

Cause: Plan officials failed to establish adequate internal control procedures to ensure that eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The failure to properly fund the members’ accounts could result in plan members receiving incorrect pension distributions upon their eligibility for retirement benefits.

Furthermore, due to the township’s failure to properly fund the accounts of 2 members, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contributions due to the 2 members for the year 2011, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

We also recommend that the township review the excess contributions made in 2010 and 2011 with the plan’s consultant to determine if the township can be reimbursed for the excess contributions made.

Furthermore, we recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

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

CHERRYHILL TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 4,762	\$ 1,632
2007	4,373	2,519
2008	5,003	2,058
2009	5,120	2,091
2010	5,188	2,187
2011	5,172	898

CHERRYHILL TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Cherryhill Township Nonuniformed Pension Plan
Indiana County
184 Spaulding Road
Penn Run, PA 15765

Mr. James Golden	Chairman, Board of Township Supervisors
Ms. Jessica Blake	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.