

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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BACKGROUND

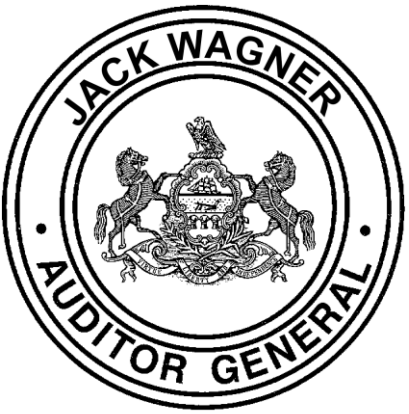
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 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. 2008-05-05-01, adopted pursuant to Act 69. Active members are not required to contribute to the plan. Effective May 5, 2008, the municipality is required to contribute 10 percent of each participant's gross wages for each pay period. Prior to May 5, 2008, the pension plan was locally controlled by the provisions of Resolution No. 90-11-05-02, as amended. The municipality was 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, 2008, to December 31, 2010. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 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 effective internal controls 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. 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 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 – Municipal Contributions Made In Excess Of Contributions Required
To Fund The Plan

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.

April 1, 2011

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:

· Improper Vesting Distribution

The township was reimbursed \$7,590 for the improper distribution made to the terminated employee. Township officials utilized the forfeiture amount of \$7,590 to offset their 2008 municipal contributions due to the plan.

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: On February 25, 2008, the township made its required municipal contribution to the plan for the year 2008 pursuant to Section 6 of Resolution No. 90-11-05-02. On May 5, 2008, the township adopted Resolution No. 2008-05-05-01, which amended the plan’s defined contribution provisions prospectively. However, after the adoption of the amending resolution, the township made additional municipal contributions retroactive to January 1, 2008, even though the provisions of Resolution No. 2008-05-05-01 were not effective until May 5, 2008. Therefore, the township made contributions to the nonuniformed pension plan in excess of the contributions required to fund the pension plan, as illustrated below:

	<u>2008</u>
Actual municipal pension costs	\$ 19,571
Employee forfeitures available	<u>(7,590)</u>
Adjusted actual municipal pension costs	11,981
State aid allocated	<u>(6,373)</u>
Municipal contributions required to fund plan	<u>\$ 5,608</u>
Actual municipal contributions made	\$ 9,366
Municipal contributions required to fund plan	<u>(5,608)</u>
Excess municipal contributions	<u>\$ 3,758</u>

Criteria: Resolution No. 90-11-05-02, Article II, Section 6, states, in part:

The plan shall be financed by period payments made by the Township in the amount of ten (10%) percent of each participant’s gross wages for the prior year. Said payment will be due and payable February of the current year.

In addition, Resolution No. 90-11-05-02, Article II, 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.

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, on May 5, 2008, Resolution No. 2008-05-05-01, Article II, Section 6, states, in part:

The Plan shall be financed by periodic payments made by the Township in the amount of ten (10%) percent of each participant's gross wages for each pay period. Said payment will be due and payable for each pay period.

Finally, Resolution No. 2008-05-05-01, Article III, Section 4, states:

This Resolution shall become effective upon adoption of this resolution.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the municipal contributions made to the plan in 2008 did not exceed the required contributions due after the application of available employee forfeitures.

Effect: The municipality allocated funds to the members' accounts in excess of the provisions contained in the plan's governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

Recommendation: We recommend that the township, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the township.

We also recommend that, in the future, plan officials reconcile the amount of employee forfeitures available, state aid allocated to the pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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
2005	\$ 8,780	\$ 1,297
2006	9,266	1,632
2007	9,619	2,898
2008	6,373	16,956
2009	9,384	2,802
2010	9,704	1,664

COLERAIN TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
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

Mr. Samuel R. Reinhart Township 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.