

COOK TOWNSHIP NONUNIFORMED PENSION PLAN

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts	6
Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement	7
Supplementary Information	9
Report Distribution List	11

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 Cook 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 Cook Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 2001-1, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's compensation.



Board of Township Supervisors
Cook Township
Westmoreland County
Stahlstown, PA 15687

We have conducted a compliance audit of the Cook 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 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Cook 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 Cook 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 – Partial Compliance With Prior Audit Recommendation -
Failure To Properly Fund Members' Accounts

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 and, accordingly, express no form of assurance on it.

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

April 11, 2012

JACK WAGNER
Auditor General

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Plan's Defined Contribution Rate Not Clearly Stated In Governing Document

The township adopted Resolution No. 14 of 2012, which states the employer contribution rate is an amount equal to 10 percent of each eligible participant's annual compensation, excluding supervisor meeting pay.

Partial Compliance With Prior Audit Recommendations

Cook Township has partially complied with the prior audit recommendations concerning the following:

- Failure To Properly Fund Members' Accounts

The township deposited \$12,277 into the pension plan to fund the members' accounts for the year 2008; however, the township improperly funded members' accounts for the years 2009, 2010 and 2011, as further discussed in the Findings and Recommendations section of this report; and

- Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$286 to the Commonwealth for the excess state aid received in 2007; however, the township received state aid in 2009 in excess of the plan's defined contribution pension costs, as further discussed in the Findings and Recommendations section of this report.

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Failure To Properly Fund Members’ Accounts

Condition: As disclosed in our prior audit report, the township failed to fund the accounts of 4 plan members in 2008, in the total amount of \$12,777. During the current audit period, the township fully funded the accounts of the 4 plan members; however, the township did not properly fund the accounts of 2 plan members in 2009 and 2010, and 4 plan members in 2011, as illustrated below:

<u>2009 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due/(Overpaid)</u>
1	\$ 3,791	\$ 4,692	\$ (901)
2	4,108	4,692	(584)
		Total	<u>\$ (1,485)</u>

<u>2010 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due/(Overpaid)</u>
1	\$ 4,701	\$ 4,225	\$ 476
2	4,112	4,274	(162)
		Total	<u>\$ 314</u>

<u>2011 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due/(Overpaid)</u>
1	\$ 4,506	\$ 4,701	\$ (195)
2	3,767	4,371	(604)
3	2,057	0	2,057
4	2,475	0	2,475
		Total	<u>\$ 3,733</u>

Criteria: The plan’s governing document sets the municipal contribution rate at 10 percent of the eligible participants’ annual compensation.

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure that all 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 distributions from the plan upon their eligibility to receive retirement benefits.

Furthermore, due to the township's failure to properly fund eligible plan members' accounts, the township must now pay interest on the delinquent contributions due.

Recommendation: We recommend that the township review the applicable members' accounts and make the adjustments deemed necessary to ensure they are properly funded for the years 2009 through 2011.

We also again recommend that plan officials establish adequate internal control procedures to ensure that all eligible members' accounts are properly funded in accordance with provisions contained in the plan's governing document.

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

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

Condition: As disclosed in our prior audit report, the township received \$286 of state aid in excess of the plan's defined contribution pension costs for the year 2007. During the current audit period, the township reimbursed the excess state aid received to the Commonwealth; however, the township received state aid in excess of the nonuniformed pension plan's defined contribution pension costs in the year 2009, as illustrated below:

State aid allocation	\$ 9,384
Actual municipal pension costs	<u>(8,228)</u>
Excess state aid	<u>\$ 1,156</u>

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 reconcile the township's annual allocation of state aid to the plan's annual defined contribution pension costs and reimburse any excess state aid received back to the Commonwealth.

Effect: It is this department's opinion that since 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 in the year 2009, in the total amount of \$1,156, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$1,156 of excess state aid received in the year 2009 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 the check.

Furthermore, we again recommend that plan officials reconcile the township's annual state aid allocation 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.

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 12,354	\$ 1,563
2007	12,826	148
2008	12,535	242
2009	9,384	329
2010	6,470	2,578
2011	8,813	152



COOK TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Cook Township Nonuniformed Pension Plan
Westmoreland County
P.O. Box 221
Stahlstown, PA 15687

Mr. Richard Umbaugh Chairman, Board of Township Supervisors

Mr. Mark McKlveen Secretary/Treasurer

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.