

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
WESTMORELAND COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2006, TO DECEMBER 31, 2008



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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 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 a minimum of 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, 2006, to December 31, 2008. 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 an internal control structure 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. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township's compliance with those requirements. 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 – Noncompliance With Prior Audit Recommendation – Plan’s Defined Contribution Rate Not Clearly Stated In Governing Document

Finding No. 2 – Failure To Fund Members’ Accounts

Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

We also noted other matters that have been included in the following observations further discussed later in this report:

Observation No. 1 – Failure To Prepare Financial Statements

Observation No. 2 – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

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.

May 20, 2009

JACK WAGNER
Auditor General

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendation

- Failure To Prepare Financial Statements

The status of the prior audit recommendation is addressed in the Observations discussed later in this report.

Noncompliance With Prior Audit Recommendation

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

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

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Plan’s Defined
Contribution Rate Not Clearly Stated In Governing Document

Condition: As disclosed in our prior audit report, the plan’s governing document, Resolution No. 2000-1, as amended, does not provide a specific defined contribution rate or amount, as required by Act 205.

Section 3.01 of Resolution No. 2000-1 states:

The Employer shall make an annual “MINIMUM” contribution of the account of each Eligible Participant. . . in an amount equal to ten (10%) percent of the Eligible Participant’s annual compensation excluding supervisor meeting pay.

Contributions may be made from the general tax revenues of the employer, or any state aid received pursuant to the Act, or from gifts or donations of any kind.

In addition, Section 3.01A states:

The employer contribution stated above is the minimum contribution required. Should the Pension Fund receive contributions in excess of the minimum amount from any of the sources noted above, the Employer is required to allocate the entire contributions received during a Plan Year. . . .

Criteria: The township filed actuarial valuation report form 203A for the nonuniformed pension plan with the Public Employee Retirement Commission which identifies the plan as a defined contribution plan.

Section 102 of Act 205 defines a defined contribution pension plan as follows:

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. (Emphasis added)

Accordingly, Section V, B, of the actuarial valuation report form 203A provides for reporting a defined contribution rate either at a specified percentage of payroll or as a specified flat dollar amount. No other types of reporting are provided for defined contribution pension plans.

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Effect: Based on the language contained in Section 3.01A previously cited, the township could allocate excess state aid to the pension plan (See Finding No. 3).

Recommendation: We again recommend that the municipality amend the plan's governing document to specify the plan's defined contribution rate as a specified percentage of payroll or as a specified flat dollar amount, with no discretionary employer contributions.

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

Finding No. 2 – Failure To Fund Members' Accounts

Condition: The township failed to fund the accounts of 4 plan members in 2008, in the total amount of \$12,777.

Criteria: The plan's governing document, Resolution No. 2000-1, sets the municipal contribution rate at a minimum of 10 percent of the participants' annual compensation.

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. In addition, no internal control procedures were in place to ensure that the 2008 state aid allocation was deposited timely into the pension plan. The township did not deposit the 2008 state aid allocation, in the amount of \$12,535, into the pension plan until May 18, 2009.

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

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

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the township deposit the contributions due to the members' accounts for the year 2008, 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, in the future, plan officials establish adequate internal control procedures to ensure the timely deposit of state aid to ensure that the accounts of all eligible plan members are properly funded.

Management's Response: Municipal officials agreed with the finding without exception. On May 18, 2009, \$12,777 was disbursed from the township's general fund to fund the 4 members' accounts for 2008.

Auditor Conclusion: Based on the management response, municipal officials have partially complied with the finding recommendation. The township still needs to determine the interest due to the members' accounts and make the appropriate deposits. Full compliance will be subject to verification through our next audit of the plan.

Finding No. 3 – 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 in the year 2007, as illustrated below:

State aid allocation	\$ 12,826
Actual municipal pension costs	<u>(12,540)</u>
Excess state aid	<u>\$ 286</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.

COOK TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs.

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 2007, in the total amount of \$286, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$286 of excess state aid received in the year 2007 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, 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 amount of state aid allocated to the nonuniformed pension plan with the plan’s defined contribution pension costs.

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
2003	\$ 11,578	\$ 1,883
2004	11,645	1,909
2005	11,707	1,638
2006	12,354	1,563
2007	12,826	148
2008	12,535	242

COOK TOWNSHIP NONUNIFORMED PENSION PLAN OBSERVATIONS

Observation No. 1 – Failure To Prepare Financial Statements

Plan officials have not prepared financial statements or required notes to the financial statements for the nonuniformed pension plan for the years ended December 31, 2006, 2007 and 2008.

Financial reporting assists in fulfilling a municipality's duty to be publicly accountable and should enable users to assess accountability. Guidance for the form and content of annual financial statements and notes to the financial statements can be found in Governmental Accounting Standards Board Statement No. 25 (GASB 25), as amended by No. 50 (GASB 50).

Plan officials should consider establishing and implementing procedures to ensure the preparation of annual financial statements, which include note disclosures required by GASB 25, as amended by GASB 50, in accordance with accounting principles generally accepted in the United States of America.

Observation No. 2 – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

Plan officials have not prepared management guidelines which describe the duties and responsibilities of municipal and plan officials in the operation of the nonuniformed pension plan.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected or delayed and investment opportunities may be lost.

The township should consider preparing a written operations manual which describes, in detail, the duties of municipal and plan officials responsible for the operation of the pension plan. This manual should be kept on file with other important plan documents.



COOK TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

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

Mr. Floyd Neiderhiser Chairman, Board of Township Supervisors

Mr. Richard Umbaugh 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.