



**COOLBAUGH TOWNSHIP NON-UNIFORMED  
EMPLOYEES' PENSION PLAN**

**MONROE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2010, TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen

**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Board of Township Supervisors  
Coolbaugh Township  
Monroe County  
Tobyhanna, PA 18466

We have conducted a compliance audit of the Coolbaugh Township Non-Uniformed Employees' Pension Plan for the period January 1, 2010, to December 31, 2012. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 the objective 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.

Coolbaugh Township contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2010 and 2011, and for an audit of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania for the year ended December 31, 2012, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Coolbaugh Township Non-Uniformed Employees' 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 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 objective.

The results of our tests indicated that, in all significant respects, the Coolbaugh Township Non-Uniformed Employees' 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 - 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 Coolbaugh Township and, where appropriate, their responses have been included in the report.

July 17, 2013



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background .....	1
Finding and Recommendation:	
Finding - Receipt Of State Aid In Excess Of Entitlement .....	2
Potential Withhold of State Aid .....	4
Supplementary Information .....	5
Report Distribution List .....	6

## 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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Coolbaugh Township Non-Uniformed Employees' 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 Coolbaugh Township Non-Uniformed Employees' Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of the Principal Financial Group Prototype Basic Defined Contribution Plan Document, as amended, adopted pursuant to an agreement approved October 26, 1992. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2012, the plan had 14 active members, 2 terminated members eligible for vested benefits in the future and no retirees receiving pension benefits.

COOLBAUGH TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
FINDING AND RECOMMENDATION

Finding - Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the non-uniformed pension plan's defined contribution pension costs in 2011 after an adjustment for available employee forfeitures, as illustrated below:

Actual municipal pension costs	\$ 66,401
Forfeitures available	<u>(1,375)</u>
Adjusted actual municipal pension costs	\$ 65,026
State aid allocation	<u>(76,749)</u>
Excess state aid	<u><u>\$ 11,723</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.

In addition, Section 3.02 of the plan document states, in part:

The Nonvested Account of a Participant shall be forfeited as of the Participant's Forfeiture Date. Forfeitures shall be determined at least once during each Plan Year. Forfeitures may first be used to pay administrative expenses. Forfeitures that have not been used to pay administrative expenses shall be allocated to each person eligible for an Employer Contribution as of the last Contribution Date in the Plan Year. The amount allocated to each eligible person shall be equal to such Forfeitures for the Plan Year multiplied by the ratio of such person's Annual Compensation as of such Contribution Date to the total Annual Compensation of all such persons. Upon their allocation to Accounts Forfeitures shall be deemed to be Employer Contributions.

COOLBAUGH TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
FINDING AND RECOMMENDATION

Finding - (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to reconcile the township's state aid allocation with the plan's actual defined contribution pension costs after the application of available employee forfeitures.

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 2011 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$11,723 of excess state aid received in the year 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 in the future, plan officials reconcile the township's annual state aid allocation and municipal contributions made to the pension plan and any available employee forfeitures 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.



COOLBAUGH TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$11,723. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, at a rate earned by the pension 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.

COOLBAUGH TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2007	\$ 57,715	\$ 19,363
2008	60,540	18,192
2009	59,432	14,888
2010	51,757	16,034
2011	65,026	None
2012	46,489	19,107

COOLBAUGH TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Coolbaugh Township Non-Uniformed Employees' Pension Plan  
Monroe County  
5550 Municipal Boulevard  
Tobyhanna, PA 18466

Mr. Juan Adams                      Chairman, Board of Township Supervisors

Mr. Douglas A. Hein                Business Manager

Ms. Patricia A. Eden                Treasurer

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).  
Media questions about the report can be directed to the Pennsylvania Department of the Auditor  
General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to:  
[news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).