

**CORNPLANTER TOWNSHIP NONUNIFORMED PENSION PLAN**

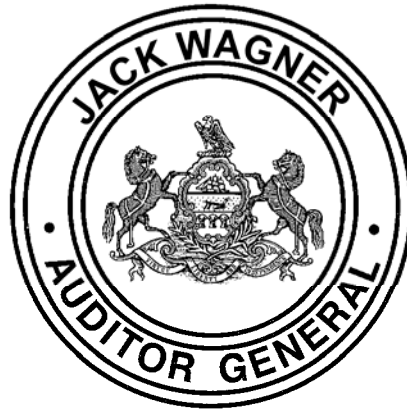
**VENANGO COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2003, TO DECEMBER 31, 2005**





**CORNPLANTER TOWNSHIP NONUNIFORMED PENSION PLAN**

**VENANGO COUNTY**

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Board of Township Supervisors  
Cornplanter Township  
Venango County  
Oil City, PA 16301

We have conducted a compliance audit of the Cornplanter Township Nonuniformed Pension Plan for the period January 1, 2003, to December 31, 2005. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

The results of our tests indicated that, in all significant respects, the Cornplanter 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 in the conclusions section of this report:

Objective No. 1

Finding No. 1 – Unauthorized Funding Mechanism

Objective No. 2

Finding No. 2 – Failure To Distribute Demutualization Compensation To Individual Members' Accounts

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

June 19, 2006

JACK WAGNER  
Auditor General



## **BACKGROUND**

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, 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 Cornplanter 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 Cornplanter Township Nonuniformed Pension Plan is locally controlled by the provisions of a plan document dated January 1, 1969, as amended.

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**OBJECTIVES, SCOPE AND METHODOLOGY**

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 for the period January 1, 2000, to December 31, 2002, dated May 1, 2003; and
2. To determine if the Cornplanter Township Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

The scope of the audit covered the period January 1, 2003, to December 31, 2005.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Cornplanter 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.

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**CONCLUSIONS - OBJECTIVE NO. 1**

The first objective of the audit was to determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report for the period January 1, 2000, to December 31, 2002, dated May 1, 2003. Our audit conclusions are presented below.

Compliance With Prior Audit Recommendations

Cornplanter Township has complied with the prior audit recommendations concerning the following:

· Receipt Of State Aid In Excess Of Entitlement

On August 26, 2004, the township returned the 1997, 1998, 1999 and 2000 excess state aid, in the amount of \$1,613, to the Commonwealth. Also, on August 26, 2004, the township returned the 2001 state aid allocation, in the amount of \$1,056, to the Commonwealth; and

· Incorrect Data For Actuarial Valuation Report Preparation

In 2003, the township revised and refiled the 2001 Act 205 actuarial valuation report.

Noncompliance With Prior Audit Recommendation

Cornplanter Township has not complied with the prior audit recommendation concerning the following:

Finding No. 1 – Unauthorized Funding Mechanism

Condition: As noted in the prior audit report, in 2001 the township established Savings Incentive Match Plan for Employees of Small Employers (SIMPLE) individual retirement accounts (IRAs) under Section 408(p) of the Internal Revenue Code to provide benefits to members of the nonuniformed pension plan at retirement. SIMPLE IRAs do not meet the definition of a pension plan under Act 205 and implementing regulations adopted by the Public Employees Retirement Commission.

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

The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

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**CONCLUSIONS - OBJECTIVE NO. 1 – (Continued)**

Finding No. 1 – (Continued)

Section 201.2 of Part IV of Title 16 of the Pennsylvania Code further elaborates on the definition included in Act 205, stating:

The term does not include a plan, program, or arrangement that is funded solely by municipal employee earnings or compensation reported as municipal employee earnings or compensation to the Internal Revenue Service on the Form W-2 Wage and Tax Statement or established under sections 8.1-8.3 of the act of March 30, 1811 (P.L. 145 Sm.L. 228) (72 P.S. 4521.1-4521.3) or Section 408 of the Internal Revenue Code (26 U.S.C.A. 408). (Emphasis added)

Cause: Municipal officials have failed to adopt adequate internal control procedures to ensure compliance with this department’s prior audit recommendation.

Effect: Since the funding mechanism does not meet the definition of a pension plan as prescribed above, it is not eligible for participation in the state aid program. In addition, since the individual employees rather than the municipality own these types of accounts, the township cannot ensure the integrity of these pension assets and the related benefits funded through state aid allocations from surrender by members prior to reaching retirement.

Recommendation: We again recommend that municipal officials transfer plan assets to an eligible funding mechanism.

In addition, we recommend that municipal officials return all state aid allocated to the unauthorized funding mechanism for the year 2003, in the amount of \$2,088, to the Commonwealth. 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check. Further, municipal officials should exclude members belonging to the ineligible plan from future Certification Forms AG 385 submitted to the department.

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**CONCLUSIONS - OBJECTIVE NO. 1 – (Continued)**

Finding No. 1 – (Continued)

Management's Response: Municipal officials agreed with the finding without exception and are pursuing a funding mechanism that would reinstate the eligible defined contribution pension plan.

Auditor Conclusion: Based on the management response, it appears municipal officials intend to comply with the recommendation above. This compliance will be subject to verification during our next audit.

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**CONCLUSIONS - OBJECTIVE NO. 2**

The second objective of the audit was to determine if the Cornplanter Township Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Our audit conclusions are presented below.

Our tests indicated that, in all significant respects, the Cornplanter 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 Objective No. 1 and the finding listed below.

**Finding No. 2 – Failure To Distribute Demutualization Compensation To Individual Members’  
Accounts**

Condition: On April 7, 2000, the Metropolitan Life Insurance Co. (MetLife) demutualized and, as part of the process, issued stock to the Cornplanter Township Nonuniformed Pension Plan. The nonuniformed plan held two accounts that received 328 and 35 shares of stock, respectively. The plan also receives annual dividends earned on this stock. At the time of the demutualization, there were three members of the plan, none of whom is currently employed by the municipality. As of the completion of our audit field work, neither the stock (or its fair market value) nor the dividends have been distributed to the members who were eligible to receive them.

Criteria: According to the annuity pension plan agreement dated January 1, 1969, which was in effect at the time of demutualization, a defined contribution plan was adopted for the nonuniformed employees. Since the shares of stock received due to demutualization were based on allocated insurance contracts issued for pension plan members, any compensation received on those contracts should have been distributed to the plan members who were insured at the time of demutualization.

Cause: Plan officials were not aware that the compensation received for demutualization should have been distributed to the three individuals who were plan members at that time.

Effect: Three former plan members have been denied assets to which they are entitled.

Recommendation: We recommend that the township proportionally allocate the shares of stock credited and dividends paid on those shares to the three members who were eligible to receive them at the time of demutualization. We also recommend that the township annually allocate dividends paid to those three eligible members.

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**CONCLUSIONS - OBJECTIVE NO. 2 – (Continued)**

Finding No. 2 – (Continued)

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials have sent a letter to have the shares sold and the proceeds remitted to Cornplanter Township. It is their intent to deposit this money into the pension checking account and then distribute the money, along with the related dividends, to the three former eligible members.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the recommendation above. This compliance will be subject to verification during our next audit of the plan.

CORNPLANTER TOWNSHIP NONUNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of \$2,088. A condition of this nature may lead to a total withholding of state aid in the future unless that 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.



CORNPLANTER TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Cornplanter Township Nonuniformed Pension Plan  
Venango County  
136 Petroleum Center Road  
Oil City, PA 16301

Mr. John Riley	Chairman, Board of Township Supervisors
Ms. Cathy McBride	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](http://www.auditorgen.state.pa.us).