

GILPIN TOWNSHIP NONUNIFORMED UNION PENSION PLAN

ARMSTRONG COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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ABBREVIATION

ERISA - Employee Retirement Income Security Act

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 Gilpin Township Nonuniformed Union 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.

As further described in the Letter from the Auditor General included in this report, the township's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund. The Gilpin Township Nonuniformed Union Pension Plan is locally controlled by the provisions of an agreement between Gilpin Township and General Teamsters, Local Union No. 538. Active members are not required to contribute to the plan. The municipality is required to contribute for each road crew employee at the following rates per week:

- New hires to five years employment - \$45.00 per week
- Six years of employment - \$75.00 per week
- Seven to eight years of employment - \$80.00 per week
- Nine to ten years of employment - \$85.00 per week
- After ten years of employment - \$150.00 per week

The municipality is also required to make contributions for the township's part-time secretary/treasurer. During the current audit period, the township contributed \$4,702 in 2007, \$4,752 in 2008, and \$4,802 in 2009 for the secretary/treasurer.



Board of Township Supervisors
Gilpin Township
Armstrong County
Leechburg, PA 15656

We have conducted a compliance audit of the Gilpin Township Nonuniformed Union Pension Plan for the period January 1, 2007, to December 31, 2009. 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 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. The township's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Fund, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Gilpin Township Nonuniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Gilpin Township Nonuniformed Union 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 Gilpin Township Nonuniformed Union 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 – Allocation 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 Gilpin Township and, where appropriate, their responses have been included in the report.

June 23, 2010

JACK WAGNER
Auditor General

GILPIN TOWNSHIP NONUNIFORMED UNION PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

· Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$1,164 to the Commonwealth for the excess state aid received. In addition, the township allocated \$2,673 of excess state aid to their defined benefit police plan; and

· Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

The excess municipal contributions made in the years 2004 and 2005 were used to offset the required 2007 employer contributions.

GILPIN TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2007 and 2008, the township allocated state aid to the nonuniformed union pension plan in excess of the plan’s defined contribution pension costs for its full-time employees, as illustrated below:

	<u>2007</u>	<u>2008</u>
State aid allocation	\$ 6,732	\$ 7,704
Less: Municipal pension costs – full-time employees	<u>(4,680)</u>	<u>(7,410)</u>
Excess state aid	<u>\$ 2,052</u>	<u>\$ 294</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 plan 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 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

GILPIN TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials failed to reconcile the township's allocations of state aid to the plan's annual defined contribution pension costs attributable to full-time plan members.

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. The township does have the option to allocate the excess state aid to its defined benefit police pension plan. If this option is not selected, the overpayments of state aid in 2007 and 2008, in the total amount of \$2,346, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that municipal officials either allocate the \$2,346 of excess state aid to their defined benefit police pension plan or return it 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 recommend that, in the future, plan officials reconcile the amount of state aid allocated to the plan with the plan's annual defined contribution pension costs attributable to full-time members.

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

GILPIN TOWNSHIP NONUNIFORMED UNION PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 4,770	\$ 4,639
2005	873	8,384
2006	4,680	4,652
2007	6,732	2,650
2008	7,704	4,548
2009	1,491	11,818

GILPIN TOWNSHIP NONUNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Gilpin Township Nonuniformed Union Pension Plan
Armstrong County
589 State Route 66
Leechburg, PA 15656

Mr. Joe Vigna	Chairman, Board of Township Supervisors
Mr. Dennis Wolfe	Township Supervisor
Ms. Sharon Long	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.