

**PAINT TOWNSHIP NONUNIFORMED PENSION PLAN**

**SOMERSET COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





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### ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System



## 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 Paint 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 Paint Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled during the audit period by the provisions of Ordinance No. 76. Subsequent to the audit period, effective April 1, 2009, the plan is locally controlled by the provisions of Ordinance No. 09-5 which adopted a plan agreement with PMRS. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality is required to contribute 8 percent of each member's annual compensation.





Board of Township Supervisors  
Paint Township  
Somerset County  
Windber, PA 15963

We have conducted a compliance audit of the Paint 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 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 has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has an immaterial amount of reportable assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Paint 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 Paint 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 finding further discussed later in this report:

Finding – Failure To Fund Members' Accounts

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 Paint Township and, where appropriate, their responses have been included in the report.

December 29, 2009

JACK WAGNER  
Auditor General

PAINT TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- Receipt Of State Aid In Excess Of Entitlement

The township reimbursed \$517 to the Commonwealth for the excess state aid received in 2004; and

- Group Annuity Contract Allows For Withdrawal Of Plan Assets Prior To Retirement

Subsequent to the audit period, the township closed out the group annuity contract and transferred the plan's assets to PMRS.

PAINT TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To Fund Members’ Accounts

Condition: The township did not fund the accounts of 4 members in 2006, 6 members in 2007 and 6 members in 2008, in the amounts of \$9,011, \$13,446 and \$14,649, respectively, as illustrated below:

<u>2006 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,225	\$ -	\$ 2,225
2	2,225	-	2,225
3	2,225	-	2,225
4	2,336	-	2,336
Total			<u>\$ 9,011</u>

<u>2007 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,291	\$ -	\$ 2,291
2	2,291	-	2,291
3	2,291	-	2,291
4	2,579	-	2,579
5	2,496	-	2,496
6	1,498	-	1,498
Total			<u>\$ 13,446</u>

<u>2008 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,360	\$ -	\$ 2,360
2	2,360	-	2,360
3	2,360	-	2,360
4	2,646	-	2,646
5	2,563	-	2,563
6	2,360	-	2,360
Total			<u>\$ 14,649</u>

PAINT TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: Ordinance No. 76 established the municipal contribution rate at 8 percent of each member's annual compensation.

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

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

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 state aid allocations were deposited into an eligible pension plan.

Effect: The failure to properly fund the members' accounts will 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 due.

Recommendation: We recommend that the township deposit the \$37,106 in contributions due to the members' accounts for the years 2006, 2007 and 2008, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

In addition, we recommend that plan officials implement adequate internal control procedures to ensure that members' accounts are properly funded in accordance with the plan's governing document and future state aid allocations are deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer, in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception. Subsequent to the audit period, \$42,101 was deposited into the nonuniformed pension plan's PMRS account.

Auditor Conclusion: Based on the management response, municipal officials have partially complied with the finding recommendation. Full compliance will be evaluated during our next audit of the plan.

PAINT TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 5,991	\$ 99
2004	6,290	None
2005	6,108	433
2006	9,011	None
2007	13,446	None
2008	14,649	None

PAINT TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Paint Township Nonuniformed Pension Plan  
Somerset County  
1741 Basin Drive  
Windber, PA 15963

Mr. David E. Blough	Chairman, Board of Township Supervisors
Mr. Andrew Tvardzik	Secretary
Ms. Wendy Senior	Office Secretary
Ms. Kristine Gibboney	Pennsylvania Municipal Retirement System

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).