

PAINT TOWNSHIP POLICE PENSION PLAN
SOMERSET COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2006, TO DECEMBER 31, 2008



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SOMERSET COUNTY

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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Status of Prior Findings	5
Finding and Recommendation:	
Finding – Failure To Fund Members’ Accounts And Pay The Minimum Municipal Obligation Of The Plan	6
Supplementary Information	9
Report Distribution List	15

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 Police 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 including, but not limited to, the following:

Act 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943 (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

Prior to January 1, 2007, the Paint Township Police Pension Plan was a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 98-121, as amended. Active members were not required to contribute to the plan. The municipality was required to contribute 8 percent of each member's annual compensation.

Effective January 1, 2007, the Paint Township Police Pension Plan became a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2008-4, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.



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

We have conducted a compliance audit of the Paint Township Police 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Paint Township Police 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 Police 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 And Pay The Minimum
Municipal Obligation Of The Plan

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 POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The township reimbursed \$3,563 to the Commonwealth for the overpayment of state aid; and

- Pension Plan Not In Compliance With Act 600 Provisions

The township adopted Ordinance No. 2008-4, effective January 1, 2007, which established a police pension plan that complies with the provisions of Act 600.

Status Of Prior Audit Recommendation

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

The township initiated procedures to close out the plan's group annuity contract and transfer the plan's assets to the First Commonwealth Bank Trust. Compliance with the prior audit recommendation will be evaluated during the next audit of the plan.

PAINT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Fund Members’ Accounts And Pay The Minimum Municipal Obligation Of The Plan

Condition: Prior to January 1, 2007, the police pension plan was a single-employer defined contribution pension plan. In 2006, the township did not fund the accounts of 4 members in the amount of \$9,598, as illustrated below:

<u>2006 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,239	\$ -	\$ 2,239
2	2,453	-	2,453
3	2,453	-	2,453
4	2,453	-	2,453
			Total
			\$ 9,598

Employee No. 1 retired on September 30, 2006, and Employee No. 4 terminated employment with the township on May 24, 2007, fully vested in his member account balance. The 2 remaining police officers transferred their account balances into the newly established defined benefit pension plan.

On January 1, 2007, the plan became a single-employer defined benefit pension plan. Plan officials did not pay the minimum municipal obligation (MMO) of the police pension plan for the years 2007 and 2008, as required by Act 205. The MMOs due the pension plan are \$13,798 for 2007 and \$13,652 for 2008.

Criteria: In 2006, the plan’s defined contribution governing document, Ordinance No. 98-121, as amended, established the municipal contribution rate at 8 percent of each member’s annual compensation.

With regard to the MMO calculations for the years 2007 and 2008, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

PAINT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Also, Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

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 and that the MMOs were paid in accordance with Act 205 requirements. In addition, no internal control procedures were in place to ensure that state aid allocations were deposited into an eligible pension plan.

Effect: For the year 2006, 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.

For the years 2007 and 2008, the failure to pay the MMOs could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Furthermore, due to the township's failure to deposit state aid timely and properly fund eligible plan members' accounts for 2006 and pay the MMOs due for 2007 and 2008, the township must now pay interest on the delinquent contributions due.

Recommendation: We recommend that the township deposit the contributions due for the 2 current police officers for the year 2006, with interest, into the defined benefit pension plan account. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

PAINT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, we recommend the township pay the contributions due to the retired and fully vested plan member, 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 the municipality pay the MMOs due to the police pension plan for the years 2007 and 2008, in the amounts of \$13,798 and \$13,652, respectively, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must 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 future MMOs are paid in full and future state aid is 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, \$41,942 was deposited into the defined benefit pension plan account.

Auditor's 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 POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2007, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 19,054	\$ 46,822	\$ 27,768	40.7%	\$ 98,746	28.1%

Generally accepted accounting principles require the above data to be presented as of the plan's actuarial valuation dates for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

Prior to January 1, 2007, the plan operated as a single-employer defined contribution pension plan.

PAINT TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

PAINT TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 13,798	100.0%
2008	13,652	100.0%

Generally accepted accounting principles require the above data to be presented for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

PAINT TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

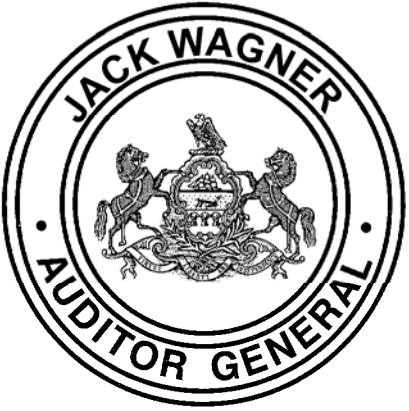
Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	22 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

PAINT TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 4,631	None
2004	4,964	None
2005	9,719	None
2006	8,517	\$ 1,081

The above data represents the years in which the plan operated as a single-employer defined contribution pension plan.



PAINT TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Paint Township Police 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

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.