

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN

SOMERSET COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2008



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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 Quemahoning 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 including, but not limited to, the following:

Act 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Quemahoning Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution effective January 1, 1993, as amended. Active members may voluntarily contribute up to 14 percent of their compensation to the plan. The municipality is required to contribute 10 percent of each member's compensation.



Board of Township Supervisors
Quemahoning Township
Somerset County
Stoystown, PA 15563

We have conducted a compliance audit of the Quemahoning Township Nonuniformed Pension Plan for the period January 1, 2005, 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 finding 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 an internal control structure to provide reasonable assurance that the Quemahoning 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.

The results of our tests indicated that, in all significant respects, the Quemahoning 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 later in this report:

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Improper Use Of State Aid In Funding Of Members' Accounts

Finding No. 3 – Adoption And Approval Of Resolution Amending Plan Benefit Provisions Not Adequately Documented

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

May 26, 2009

JACK WAGNER
Auditor General

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Improper Pension Benefit

During the prior audit period, a member of the plan who terminated employment was given a lump-sum pension benefit distribution that was not authorized by the plan's governing document.

The prior audit report contained a recommendation that municipal officials take the necessary steps to ensure that future pension benefits are paid in accordance with the plan's governing document. As an alternative, the township could consider amending the plan's governing document to eliminate the lifetime payment requirement or to provide for a lump-sum payment option.

During the current audit period, the township adopted a resolution in 2005 which permitted members who are 100 percent vested to have the option to receive a lump-sum pension benefit distribution.

However, although the resolution was signed by the Chairman of the Board of Township Supervisors and the Township Secretary (who were both members of the plan and married to each other), the resolution was not dated, nor was any documentation provided by the township that it was formally approved by the Board of Township Supervisors. In addition, there was no documentation the benefit changes contained in this resolution were formally approved by the Board of Township Auditors as required by Act 69, as noted in Finding No. 3 contained in the Findings and Recommendations section of this report.

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the nonuniformed pension plan's defined contribution pension costs in the year 2008, as illustrated below:

State aid allocation	\$ 15,932
Actual municipal pension costs	<u>(14,596)</u>
Excess state aid	<u><u>\$ 1,336</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.

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan's actual defined contribution pension costs.

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. Consequently, the overpayment of state aid in the year 2008, in the total amount of \$1,336, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$1,336 of excess state aid received in the year 2008 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, 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 amount of state aid allocated to the nonuniformed pension plan with the plan's defined contribution pension costs.

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

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Use Of State Aid In Funding Of Members’ Accounts

Condition: For the period January 1, 2003, to December 31, 2006, the township used state aid to improperly fund the accounts of 2 members who received compensation for unauthorized overtime, compensatory time and sick time.

Criteria: The plan’s governing document, a resolution effective January 1, 1993, as amended, sets the municipal contribution rate at 10 percent of the employee’s compensation.

Cause: Investigations and audits performed by the State Ethics Commission, resulting in Order Nos. 1490-R and 1488, determined that 2 former plan members received improper compensation of \$4,032 and \$1,437, respectively, during the period January 1, 2003, to December 31, 2006. The township contributed 10 percent of the improper compensation into the members’ accounts during the years 2003 through 2006.

Effect: The improper funding of the members’ accounts resulted in the members’ receiving \$403 and \$144 of excess contributions they were not entitled to receive. Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs. Therefore, \$547 of state aid was used to improperly fund the members’ accounts.

Recommendation: We recommend that the township return the \$547 of state aid used to improperly fund the members’ accounts, with interest, 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

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

Finding No. 3 – Adoption And Approval Of Resolution Amending Plan Benefit Provisions Not Adequately Documented

Condition: During the prior audit period, a member of the plan who terminated employment was given a lump-sum pension benefit distribution that was not authorized by the plan’s governing document.

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

The prior audit report contained a recommendation that municipal officials take the necessary steps to ensure that future pension benefits are paid in accordance with the plan's governing document. As an alternative, the township could consider amending the plan's governing document to eliminate the lifetime payment requirement or to provide for a lump-sum benefit payment distribution option.

During the current audit period, the township adopted a resolution in 2005 which permitted members who are 100 percent vested to have the option to receive a lump-sum benefit. However, although the resolution was only signed by the Chairman of the Board of Township Supervisors and the Township Secretary (who were both members of the plan and married to each other), the resolution was not dated, nor was any documentation provided by the township that the resolution was formally approved by the Board of Township Supervisors. In addition, there was no documentation the benefit changes contained in the resolution were formally approved by the Board of Township Auditors as required by Act 69.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Regarding the documentation of resolutions adopted at board of township supervisor's meetings, Section 605(a) of Act 69 states, in part:

The board of supervisors shall provide for the recording of minutes of its proceedings and other books it may find necessary in the performance of its duties. The records shall be made available to the board of auditors during the annual audit.

Furthermore, Section 606(b) of Act 69 states, in part:

Any benefit provided to or for the benefit of a supervisor employed by the township. . . in the form of inclusion in a pension plan paid for in whole or in part by the township. . . is determined by the board of township auditors...

In addition, with regard to benefit changes requiring township auditor approval, Section 606(b)(3) of Act 69 states:

No change in the nature or rate of the contributions of a defined contribution plan and no change in the benefit formula of a defined benefit plan shall be initiated by the board of supervisors with respect to a supervisor-employee without auditor approval.

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that adequate supporting documentation was maintained to document the adoption of the resolution in the minutes of the board of township’s supervisor’s meeting and that the benefit modifications contained in the resolution were approved by the township’s board of auditors.

Effect: Improperly adopted and approved plan documents could result in inconsistent or improper benefit funding and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials, with the assistance of the township’s solicitor, ensure that all of the plan’s benefit provisions are contained in a properly executed plan document whose benefit provisions are approved by the township’s board of auditors in accordance with Act 69 provisions.

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

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 7,865	\$ 8,057
2004	14,557	3,055
2005	14,634	2,284
2006	15,443	2,792
2007	16,032	2,145
2008	14,596	None

QUEMAHONING TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Quemahoning Township Nonuniformed Pension Plan
Somerset County
424 Forbes Road, Suite 1
Stoystown, PA 15563

Mr. Mark A. Corden	Chairman, Board of Township Supervisors
Mr. Jesse H. Shroyer	Township Supervisor
Mr. Mark A. Rininger	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.