

RUSH TOWNSHIP NONUNIFORMED PENSION PLAN

CENTRE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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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 Rush 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 Rush Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution dated July 8, 1999. Active members elect a bi-weekly contribution to the pension plan and the township matches the member's contribution. During the current audit period, one plan member contributed \$20 bi-weekly and the other plan member contributed \$100 bi-weekly to the plan.



Board of Township Supervisors
Rush Township
Centre County
Philipsburg, PA 16866

We have conducted a compliance audit of the Rush Township Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2010. 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. 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 no reportable assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Rush 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 Rush 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 Ownership Of Allocated Insurance Contract

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

August 23, 2011

JACK WAGNER
Auditor General

RUSH TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Rush Township has complied with the prior audit recommendation concerning the following:

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

During the current audit period, municipal officials established adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

RUSH 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 years 2009 and 2010, as illustrated below:

	<u>2009</u>	<u>2010</u>
State aid allocation	\$ 3,314	\$ 3,120
Actual municipal pension costs	(3,170)	(2,870)
Excess state aid	\$ 144	\$ 250

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 because 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 overpayments of state aid in the years 2009 and 2010, in the total amount of \$394, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$394 of excess state aid received in the years 2009 and 2010 to the Commonwealth from the nonuniformed pension plan. 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 evidence of payment.

RUSH TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we recommend that in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and municipal contributions made to the pension plan with the plan's actual defined contribution pension costs.

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

Finding No. 2 – Improper Ownership Of Allocated Insurance Contract

Condition: The municipality is funding an allocated insurance contract that improperly designates an individual plan member as the owner of the contract.

Criteria: Since premiums on this policy have been paid with state aid and municipal funds, the municipality should maintain ownership of the allocated insurance contract to ensure the proceeds of the contract will be distributed in accordance with the plan's governing document.

Cause: Plan officials were unaware of the risks of the improper ownership of the contract.

Effect: Continued improper ownership of the allocated insurance contract could result in premature withdrawals or other improper dispositions of the funds. An improper distribution from the insurance contract could also result in the township having to reimburse the Commonwealth for any improper distribution to the plan member.

Recommendation: We recommend that plan officials contact the insurance company to determine if the ownership of the allocated insurance contract can be changed to the Rush Township Nonuniformed Pension Plan without a penalty to the plan member. If this cannot be accomplished, we recommend that the municipality implement adequate internal control procedures to ensure that the proceeds from the allocated insurance contract are not surrendered to the plan member prior to eligibility to receive benefits from the pension plan.

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

RUSH TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 301	\$ 11
2006	312	900
2007	479	2,433
2008	525	2,645
2009	3,314	None
2010	3,120	None

RUSH TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Rush Township Nonuniformed Pension Plan
Centre County
150 North Richard Street
P.O. Box 152
Philipsburg, PA 16866

Mr. Michael T. Savage Chairman, Board of Township Supervisors
Ms. Joan T. Cowher Township 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.