

SOMERSET TOWNSHIP NONUNIFORMED PENSION PLAN

SOMERSET COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, 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 Somerset 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 Somerset Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution dated March 19, 1984, as amended. Active members are not required to contribute to the plan; however, members may voluntarily contribute up to \$2,000 per year. The municipality is required to contribute \$425 per month per member.



Board of Township Supervisors
Somerset Township
Somerset County
Somerset, PA 15501

We have conducted a compliance audit of the Somerset 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Somerset 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 Somerset 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 – Partial Compliance With Prior Audit Recommendation –
Inconsistent Benefit Provision

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

August 25, 2009

JACK WAGNER
Auditor General

SOMERSET TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Unauthorized Benefit Provision Allowing For The Withdrawal Of Plan Assets Prior To Retirement

Township officials adopted Resolution No. 08-15 which prohibits the withdrawal of municipal contributions prior to retirement.

Partial Compliance With Prior Audit Recommendation

- Inconsistent Benefit Provisions

Township officials adopted Resolution No. 08-15 which eliminated the inconsistencies regarding matching employer contributions and voluntary employee contributions. However, the municipality has not addressed the inconsistency between the governing document and the adoption agreement regarding the employer contribution rate as disclosed in the Finding and Recommendation section of this report.

SOMERSET TOWNSHIP NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Inconsistent Benefit Provision

Condition: As disclosed in the prior audit report, the pension plan’s governing resolution, as amended, contained benefit provisions that were inconsistent with the plan’s adoption agreement. During the current audit period, the township adopted Resolution No. 08-15 which eliminated the inconsistencies regarding matching employer contributions and voluntary employee contributions. However, the employer contribution rate contained in the plan’s governing document remains inconsistent with the provision contained in the adoption agreement as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Adoption Agreement</u>	<u>Township’s Practice</u>
Employer contribution rate	A resolution dated January 3, 2006, states ...the monthly contribution to the township’s pension plan shall be increased to \$425 per active participant...	Section 31(d) states that the annual basic employer contribution shall be contributions funded by Act 205 Municipal Pension Assistance of 1984, to be allocated equally to all participants. (No excess state aid.)	The township has contributed \$425 per month to each participant.

Criteria: The plan’s governing document and the adoption agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

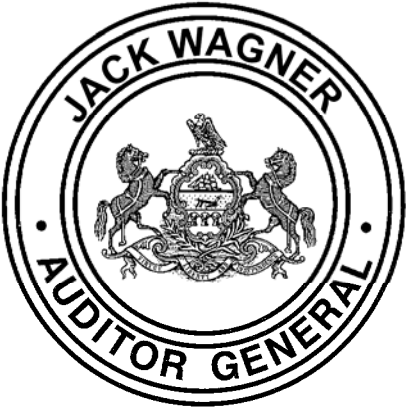
Recommendation: We again recommend that municipal officials ensure the plan’s governing document and the adoption agreement contain consistent employer contribution rates at their earliest opportunity to do so.

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

SOMERSET TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 46,226	\$ 1,243
2004	46,449	1,336
2005	45,970	2,487
2006	42,688	44,012
2007	43,002	43,273
2008	50,981	29,344



SOMERSET TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Somerset Township Nonuniformed Pension Plan
Somerset County
2209 North Center Avenue
Somerset, PA 15501

Mr. Daniel H. Halverson Chairman, Board of Township Supervisors

Mr. Jack W. Biancotti 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.