

UPPER BURRELL TOWNSHIP POLICE PENSION PLAN

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



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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.

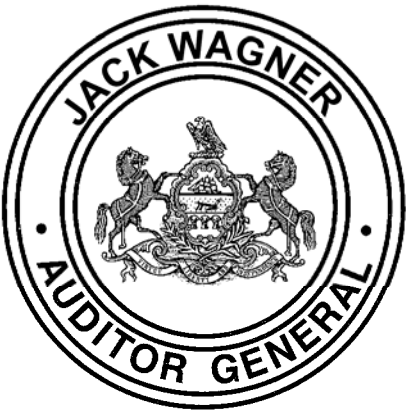
Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, 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 Upper Burrell 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 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.

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.

The Upper Burrell Township Police Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1 of 1995, as amended, adopted pursuant to Act 120. Active members are not required to contribute to the plan. The municipality is required to contribute \$5,000 per year for each full-time employee.



Board of Township Supervisors
Upper Burrell Township
Westmoreland County
New Kensington, PA 15068

We have conducted a compliance audit of the Upper Burrell Township Police Pension Plan for the period January 1, 2006, to December 31, 2007. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective 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 an internal control structure to provide reasonable assurance that the Upper Burrell Township Police 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 objective.

The results of our tests indicated that, in all significant respects, the Upper Burrell 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 – Withdrawal Of Plan Assets Prior To Retirement Eligibility

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

December 15, 2008

JACK WAGNER
Auditor General

UPPER BURRELL TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Withdrawal Of Plan Assets Prior To Retirement Eligibility

Condition: A terminated plan member improperly received \$30,050 from an allocated insurance contract that was improperly surrendered prior to the former employee’s eligibility to receive a retirement benefit.

Criteria: Ordinance No. 1 of 1995, at Section 6, states in part that:

Should a full-time police officer who is a participant under the Upper Burrell Township Police Pension Plan be discharged or voluntarily withdraw from the police force, the participant shall be entitled to a deferred monthly benefit equal to the accrued benefit provided by the Annuity Contract at the time the discharge or voluntary withdrawal occurs. Such benefit shall be payable as follows:

- (a) When the participant attains the age of 50 years and would have completed 12 years of service. . . .

In addition, Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefits for eligible beneficiaries, and not to be used for distributions prior to retirement eligibility.

Cause: Plan officials were unaware that plan assets should not be distributed to members prior to their retirement eligibility.

Effect: The former employee received a distribution from the plan prior to his eligibility to receive it.

UPPER BURRELL TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

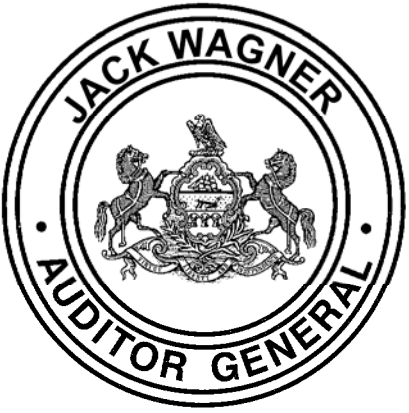
Recommendation: We recommend that municipal officials establish adequate internal control procedures to ensure that future retirement benefit distributions are made in accordance with the provisions contained in the plan's governing document.

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

UPPER BURRELL TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 4,659	\$ 1,341
2003	8,000	None
2004	9,500	None
2005	9,500	None
2006	5,000	None
2007	5,000	None



UPPER BURRELL TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Upper Burrell Township Police Pension Plan
Westmoreland County
3735 Seventh Street
New Kensington, PA 15068

Mr. Ross G. Walker, III Chairman, Board of Township Supervisors

Ms. Amy S. Rockwell Secretary/Treasurer

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.