

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN

CLEARFIELD 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 Gulich 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 Gulich Township Nonuniformed Pension Plan is a single-employer pension plan locally controlled by the provisions of Resolution No. 03/06/98, as amended. Active members are not required to contribute to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts.



Board of Township Supervisors
Gulich Township
Clearfield County
Smith Mill, PA 16680

We have conducted a compliance audit of the Gulich 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 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 effective internal controls to provide reasonable assurance that the Gulich 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 Gulich 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Improper Distribution From Unallocated Insurance Contract

We also noted a matter that has been included in the following observation further discussed later in this report:

Observation – Failure To Prepare Financial Statements

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

December 30, 2009

JACK WAGNER
Auditor General

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

- Failure To Prepare Financial Statements

The status of the prior audit recommendation is addressed in the Observation discussed later in this report.

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified 2 ineligible employees in the years 2006, 2007, 2008 and 2009 and overstated payroll by \$24,395, \$21,875, \$24,795 and \$16,717, respectively, on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees and failed to follow the instructions accompanying the certification form.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the township’s state aid allocations were based on pension costs, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2006	10.01%	\$ 24,395	\$ 2,442
2007	10.01%	\$ 21,875	\$ 2,190
2008	10.13%	\$ 24,795	\$ 2,512
2009	10.13%	\$ 16,717	\$ 1,693
Total Overpayment of State Aid			<u><u>\$ 8,837</u></u>

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$8,837, be returned to the Commonwealth from the township’s general fund. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension 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 the check.

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Finding No. 2 – Improper Distribution From Unallocated Insurance Contract

Condition: In 2007, an employee, hired on January 1, 2000, received the entire balance of his pension account in the amount of \$20,273. As of the date of this audit report, the member remains an active supervisor/employee of the township.

Criteria: 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.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments and not to be used for distributions to active members of a pension plan prior to their retirement benefit eligibility.

Cause: When the supervisor/employee requested the entire balance of his pension account, plan officials were unaware that distributions from the unallocated insurance contract maintained to fund pension benefits should not made to active members of the pension plan prior to their retirement benefit eligibility.

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Distributions from the unallocated insurance contract prior to retirement benefit eligibility violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of a member and undermines the integrity of the pension plan.

Recommendation: We recommend that municipal officials implement adequate internal control procedures to ensure that distributions from the unallocated insurance contract are not made to active members of the pension plan prior to their retirement benefit eligibility.

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

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the total amount of \$8,837. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension 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.

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 4,764	\$ 2,736
2004	2,769	4,731
2005	3,595	2,405
2006	4,529	2,971
2007	4,264	1,736
2008	4,624	1,376

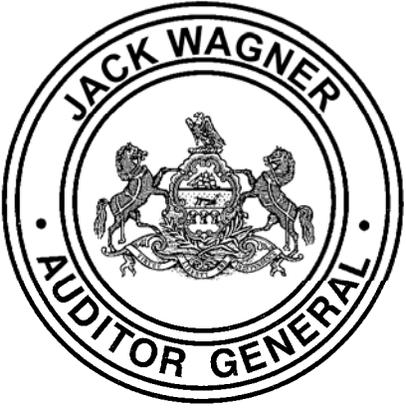
GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
OBSERVATION

Observation – Failure To Prepare Financial Statements

Plan officials have not prepared financial statements or required notes to the financial statements for the nonuniformed pension plan for the years ended December 31, 2006, 2007 and 2008.

Financial reporting assists in fulfilling a municipality's duty to be publicly accountable and should enable users to assess accountability. Guidance for the form and content of annual financial statements and notes to the financial statements can be found in Governmental Accounting Standards Board Statement No. 25 (GASB 25), as amended by No. 50 (GASB 50).

Plan officials should consider establishing and implementing procedures to ensure the preparation of annual financial statements, which include note disclosures required by GASB 25, as amended by GASB 50, in accordance with accounting principles generally accepted in the United States of America.



GULICH TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Gulich Township Nonuniformed Pension Plan
Clearfield County
P.O. Box 305
Smith Mill, PA 16680

Mr. Alex E. Solan Chairman, Board of Township Supervisors

Mr. Martin J. Pajonk 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.