

**LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN**

**LEHIGH COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2007**





**LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN**

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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 Lower Macungie 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 Lower Macungie Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1995-12, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality is required to contribute 20 percent of each member's compensation.



Board of Township Commissioners  
Lower Macungie Township  
Lehigh County  
Macungie, PA 18062

We have conducted a compliance audit of the Lower Macungie Township Nonuniformed Pension Plan for the period January 1, 2005, 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 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 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. Lower Macungie Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Lower Macungie 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 Lower Macungie 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 – Incorrect Data On Certification Form AG 385 Resulting In  
An Overpayment Of State Aid

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

June 10, 2008

JACK WAGNER  
Auditor General

LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Lower Macungie Township has complied with the prior audit recommendation concerning the following:

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

The township reimbursed \$2,936 to the Commonwealth for the overpayment of state aid.

LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified 4 ineligible nonuniformed employees (4 units) and overstated payroll by \$153,353 in 2006 and certified 7 ineligible nonuniformed employees (7 units) and overstated payroll by \$146,141 in 2007 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.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

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. Since the township’s state aid allocations were based on unit value, the effect of the incorrect certification of pension data on the township’s state aid allocations is identified below:

| <u>Year</u> | <u>Units<br/>Overstated</u> | <u>Unit<br/>Value</u> | <u>State Aid<br/>Overpayment</u> |
|-------------|-----------------------------|-----------------------|----------------------------------|
| 2006        | 4                           | \$ 3,089              | \$ 12,356                        |
| 2007        | 7                           | \$ 3,206              | <u>22,442</u>                    |
|             |                             | Total                 | <u>\$ 34,798</u>                 |

In addition, since the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the nonuniformed pension plan, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

Recommendation: We recommend that the total excess state aid in the amount of \$34,798 be returned 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 pension 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 the check.

LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

In addition, if the reimbursement to the Commonwealth is made from nonuniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

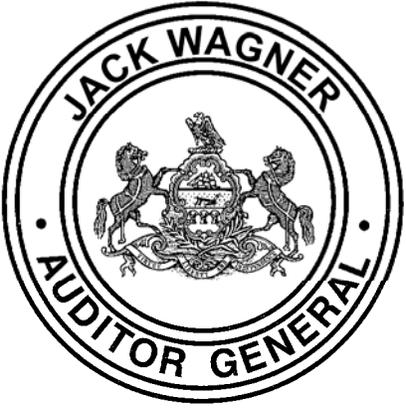
LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the township in the amount of \$34,798. A condition of this nature may lead to a total withholding of state aid in the future unless the 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid Deposited | Employer Contributions |
|------------------------|---------------------|------------------------|
| 2002                   | \$ 66,311           | \$ 121,427             |
| 2003                   | 66,571              | 128,552                |
| 2004                   | 72,784              | 143,180                |
| 2005                   | 81,950              | 139,475                |
| 2006                   | 95,744              | 126,398                |
| 2007                   | 105,811             | 123,044                |



LOWER MACUNGIE TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Lower Macungie Township Nonuniformed Pension Plan  
Lehigh County  
3400 Brookside Road  
Macungie, PA 18062

|                        |  |
|------------------------|--|
| Mr. E. Keller Kline    | President, Board of Township Commissioners |
| Mr. Richard Klotz      | Interim Township Manager                   |
| Ms. Cassandra Williams | Director of Finance                        |

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](http://www.auditorgen.state.pa.us).