

**GULICH TOWNSHIP NONUNIFORMED PENSION PLAN**

**CLEARFIELD COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**





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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, 2009, to December 31, 2011. 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 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 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 – Failure To Establish A Normal Retirement And/Or Vesting Provision

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

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.

July 25, 2012

JACK WAGNER  
Auditor General

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Gulich 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 municipality reimbursed \$8,837 to the Commonwealth for the overpayment of state aid.

Noncompliance With Prior Audit Recommendation

- Improper Distribution From Unallocated Insurance Contract

Gulich Township has not complied with the prior audit recommendation as further discussed in Finding No. 1 in the Findings and Recommendations section of this report.

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Establish A Normal Retirement And/Or Vesting Provision

Condition: As disclosed in the prior audit report, in 2007, an employee hired on January 1, 2000, received the entire balance of his pension account in the amount of \$20,273. This employee did not terminate his employment with the municipality until December 31, 2011.

In addition, in 2011, an employee hired on January 7, 2002, received over 95% of the balance of his pension account in the amount of \$25,000. As of the date of this audit report, the member remains an active supervisor/employee of the township.

These conditions have arisen due to the fact that the municipality maintains a pension plan that does not contain a normal retirement eligibility benefit provision and/or vesting provision. Active members are able to withdraw their pension account balances prior to retirement or termination. Consequently, the plan functions as a savings account for its members rather than as a retirement benefit plan.

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 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: Plan officials failed to ensure that the plan’s governing document provided a normal retirement and/or vesting eligibility provision and prohibited distributions to plan members prior to their retirement or termination of employment.

Effect: Plan members may withdraw their account balances at any time regardless of whether or not they have terminated their employment with the municipality.

Furthermore, distributions to the plan members 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 take appropriate action to ensure the pension plan establishes a normal retirement and/or vesting eligibility provision. In addition, municipal officials should ensure that the plan’s governing document clearly prohibits distributions to active members of the pension plan prior to their retirement benefit eligibility or termination of employment with the municipality.

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

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Receipt Of State Aid In Excess Of Entitlement

Condition: The township received state aid in excess of the nonuniformed pension plan’s pension costs in the year 2009, as illustrated below:

State aid allocation	\$	3,915
State aid returned to Commonwealth		(1,693)
Adjusted state aid		2,222
Actual municipal pension costs		(2,000)
Excess state aid	\$	222

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: Although the township accurately reported the plan’s payroll information on the January 1, 2007, actuarial valuation report, when the imputed cost was used to calculate the normal cost percentage it resulted in the receipt of excess state aid.

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 overpayment of state aid in the year 2009, in the total amount of \$222, must be returned to the Commonwealth for redistribution.

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 - (Continued)

Recommendation: We recommend that the municipality return the \$222 of excess state aid received in the year 2009 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 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.

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

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 402-D Finance Building, Harrisburg, PA 17120.

GULICH TOWNSHIP NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 2,087	\$ 5,413
2007	2,074	3,926
2008	2,112	3,888
2009	2,222	5,778
2010	1,799	5,201
2011	None	8,000



GULICH TOWNSHIP NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
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](http://www.auditorgen.state.pa.us).