

MARTIC TOWNSHIP NONUNIFORMED PENSION PLAN

LANCASTER 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 Martic 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 Martic Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 4-1-94, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 5 percent of each member's annual gross wages plus the state aid allocation divided evenly among active members who are participants at December 31.



Board of Township Supervisors
Martic Township
Lancaster County
Pequea, PA 17565

We have conducted a compliance audit of the Martic Township Nonuniformed 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 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. The township has elected to purchase allocated annuity 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 annuity 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 Martic 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 Martic 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 Properly Fund Members’ Accounts

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In
An Underpayment 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 Martic Township and, where appropriate, their responses have been included in the report.

January 23, 2009

JACK WAGNER
Auditor General

MARTIC TOWNSHIP NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Failure To Maintain An Adequate Record-Keeping System

Township officials established adequate record keeping procedures.

MARTIC TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Properly Fund Members’ Accounts

Condition: During and subsequent to the audit period, the township did not properly fund plan members’ accounts in accordance with the provisions contained in the plan’s governing document. The overpayments and the underpayments to the individual members’ accounts are illustrated below:

Plan Member	2008	2007	2006	Total Overpayment (Underpayment)
1	-	\$ 5,023	\$ 263	\$ 5,286
2	-	3,376	263	3,639
3	\$ (440)	(4,403)	263	(4,580)
4	-	-	(790)	(790)
5	(2,221)	-	-	(2,221)
6	(1,984)	-	-	(1,984)

Criteria: The plan’s governing document, Ordinance No. 4-1-94, as amended, requires the completion of one full year of service with the township and sets the municipal contribution rate at 5 percent of each member’s annual gross wages plus the state aid allocation received divided evenly among its active members. The document also states that a participant under this plan shall be entitled to an allocation of any contribution to the pension fund as of December 31 of each calendar year, provided that he or she is employed on such date as a full-time, nonuniformed employee.

Furthermore, an additional provision mandates a minimum initial deposit of \$1,000 into an active members’ annuity.

Cause: The township failed to establish adequate internal control procedures to ensure that the members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

MARTIC TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The failure to properly fund the plan resulted in plan members either receiving excess benefits or being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township fund the accounts of all eligible plan members in accordance with the provisions contained in the plan’s governing document.

In addition, we recommend that plan officials review the individual members’ accounts to ensure they are properly funded.

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

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$29,614 in 2008 on Certification Form AG 385.

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

Cause: Plan officials failed to certify a plan member who terminated employment with the township in September of 2007.

Effect: The data submitted on this certification form 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 allocation was based on pension costs, the effect of the incorrect certification of pension data on the township’s state aid allocation is identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
5.0%	\$ 29,614	\$ 1,481

MARTIC TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Although the township will be reimbursed for the underpayment of state aid due to the township's certification error, the full amount of the 2008 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We 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 plan data.

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

MARTIC TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 4,086	\$ 4,054
2003	4,141	4,484
2004	4,546	4,389
2005	4,389	4,512
2006	3,159	5,562
2007	7,045	5,432



MARTIC TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Martic Township Nonuniformed Pension Plan
Lancaster County
370 Steinman Farm Road
Pequea, PA 17565

Ms. Barbara Stokes Chairman, Board of Township Supervisors

Ms. Judy Ament Chief Administrative Officer

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.