

MOORE TOWNSHIP NONUNIFORMED PENSION PLAN

NORTHAMPTON 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 Moore 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 Moore Township Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 79-3, 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 was required to contribute \$1.50 per hour worked per member in 2006 and 2007, and \$2.00 per hour worked per member in 2008.



Board of Township Supervisors
Moore Township
Northampton County
Bath, PA 18014

We have conducted a compliance audit of the Moore 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 effective internal controls to provide reasonable assurance that the Moore 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Moore 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 – Failure To Fund Member's Account

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

September 3, 2009

JACK WAGNER
Auditor General

MOORE 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 1 ineligible police officer (2 units) and overstated payroll by \$10,243 in 2008, and certified 1 ineligible police officer (2 units) and 1 ineligible nonuniformed employee (1 unit) and overstated payroll by \$11,923 and \$14,380, respectively, in 2009 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 township for distribution to its pension plans. Because the township’s state aid allocations were based on unit value, the incorrect certification of pension data affected the township’s state aid allocations, as identified below:

| <u>Year</u> | <u>Type Of Plan</u> | <u>Units Overstated</u> | <u>Unit Value</u> | <u>State Aid Overpayment</u> |
|---------------------------------------|---------------------|-------------------------|-------------------|------------------------------|
| 2008 | Police | 2 | \$ 3,186 | \$ 6,372 |
| 2009 | Police | 2 | \$ 3,128 | \$ 6,256 |
| | Nonuniformed | 1 | \$ 3,128 | <u>3,128</u> |
| Total Overpayment of State Aid | | | | <u>\$ 15,756</u> |

In addition, the township used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the police and nonuniformed pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans’ MMOs will not be fully paid.

Recommendation: We recommend that the excess state aid, in the amount of \$15,756, 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.

MOORE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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 police or 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.

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

Finding No. 2 – Failure To Fund Member's Account

Condition: In 2007 and 2008, the township did not fund the account of a member who became a full-time employee on April 1, 2007.

Criteria: The plan's governing document, Resolution No. 79-3, sets the municipal contribution rate at \$1.50 per hour worked per member in 2007 and \$2.00 per hour worked per member in 2008.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the new member's account was properly funded in accordance with the plan's governing document.

Effect: The failure to properly fund the member's account will result in the plan member receiving an underpayment of pension benefits unless the account is reimbursed for the amount due.

Furthermore, due to township's failure to properly fund the referenced member's account, the township must now pay interest on the delinquent contributions due.

Recommendation: We recommend that the township deposit the contributions due to the member's account for the years 2007 and 2008 retroactive to the member's original date of hire, with interest. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

MOORE TOWNSHIP NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: Municipal officials agreed with the finding without exception. Subsequent to the audit period, the township provided documentation that the member's account was fully funded retroactive to the member's date of hire.

Auditor's Conclusion: Based on the management response, municipal officials have complied with the finding recommendation.

MOORE TOWNSHIP NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid Deposited | Employer Contributions |
|------------------------|---------------------|------------------------|
| 2003 | None | \$ 14,973 |
| 2004 | \$ 18,445 | None |
| 2005 | 18,708 | None |
| 2006 | 18,325 | None |
| 2007 | 10,857 | 6,523 |
| 2008 | 22,179 | None |

MOORE TOWNSHIP NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Moore Township Nonuniformed Pension Plan
Northampton County
2491 Community Drive
Bath, PA 18014

Mr. Maynard Campbell Chairman, Board of Township Supervisors

Mr. Rodney Jarinko 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.