

LIMITED PROCEDURES ENGAGEMENT

Houtzdale Borough Non-Uniformed Pension Plan Clearfield County, Pennsylvania For the Period January 1, 2011 to April 5, 2013

February 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Houtzdale Borough
Clearfield County
Houtzdale, PA 16651

We conducted a Limited Procedures Engagement (LPE) of the Houtzdale Borough Non-Uniformed Pension Plan for the period January 1, 2011 to April 5, 2013 to determine its compliance with certain relevant state laws, regulations, policies, and administrative procedures. In 2012, an annuity was purchased for the only vested plan member who had terminated employment in 2008. In 2013, the only active plan member terminated employment without having vested, and the member's forfeited asset balance was transferred from the pension plan into a borough account for disposition, and all pension plan asset accounts were closed. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- × Whether municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- × Whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under review. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × Whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × Whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Houtzdale Borough Non-Uniformed Pension Plan was not being 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 subsequent to this letter:

Finding – Return Of Unused Monies To The Commonwealth

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

The contents of this letter were discussed with officials of Houtzdale Borough and, where appropriate, their responses have been included in this letter.

February 8, 2016



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Finding	1
Finding and Recommendation:	
Finding – Return Of Unused Monies To The Commonwealth	2
Summary of Deposited State Aid and Employer Contributions	3
Distribution List	4

HOUTZDALE BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Houtzdale Borough has complied with the prior audit recommendation concerning the following:

· Failure To Fund Member's Account

On December 21, 2011, the municipality deposited \$2,707 for the contributions due to the member's account with interest.

HOUTZDALE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Return Of Unused Monies To The Commonwealth

Condition: Houtzdale Borough has not had a member in their non-uniformed pension plan since a non-vested employee terminated employment in 2013. After this employee’s termination, the borough transferred his forfeited asset balance of \$13,116 from the pension plan into a borough account and closed all pension plan asset accounts. The forfeited asset balance of \$13,116 was made up of \$3,128 of state aid received in 2009, \$8,079 of municipal contributions, and \$1,909 of interest earned.

Criteria: Act 205, at Section 402(g), directs that:

Any general municipal pension system State aid received by a municipality shall, only be used to defray the cost of the pension plan or pension plans maintained by the municipality...

Furthermore, Section 402(j) authorizes the Auditor General to administer the General Municipal Pension State Aid Program. This administrative power necessarily extends to ensuring that state aid is both allocated and used in accordance with the act.

Cause: Plan officials were unsure of the proper disposition of the unused funds.

Effect: The borough is improperly retaining unneeded funds that should be returned to the Commonwealth for redistribution to eligible municipalities for reimbursement of eligible pension costs.

Recommendation: We recommend that borough officials return to the Commonwealth the state aid received in 2009, in the amount of \$3,128, plus interest compounded annually from date of receipt until date of repayment. A check, along with any applicable calculations used in determining the amount of interest due, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120.

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

Auditor Conclusion: Compliance will be monitored subsequent to the release of the LPE results letter.

HOUTZDALE BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 3,186	\$ 14
2009	3,128	72
2010	None	2,650
2011	None	2,650
2012	None	2,650

HOUTZDALE BOROUGH NON-UNIFORMED PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Houtzdale Borough Non-Uniformed Pension Plan
Clearfield County
704 Brisbin Street
Houtzdale, PA 16651

The Honorable Camille George	Mayor
Mr. Jesse Lamison	Council President
Mr. James Love	Council Vice-President

This letter is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the letter can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.