

COMPLIANCE AUDIT

Saint Clair Borough Non-Uniformed Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

December 2014



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
Saint Clair Borough
Schuylkill County
Saint Clair, PA 17970

We have conducted a compliance audit of the Saint Clair Borough Non-Uniformed Pension Plan for the period January 1, 2011 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the contractual agreement with the Pennsylvania State Association of Boroughs are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

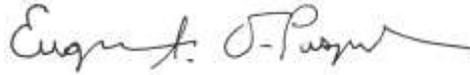
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Saint Clair Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough'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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the Saint Clair Borough Non-Uniformed 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 – Partial Compliance With Prior Audit Recommendation -
Allocation Of State Aid In Excess Of Entitlement

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The contents of this report were discussed with officials of Saint Clair Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

November 19, 2014

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Saint Clair Borough Non-Uniformed 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 Saint Clair Borough Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution dated June 5, 1989, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute to contribute \$335 per month for each participant. As of December 31, 2013, the plan had 4 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

SAINT CLAIR BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Saint Clair Borough has complied with the prior audit recommendation concerning the following:

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Municipal officials transferred the excess municipal contributions in the amount of \$1,449, plus applicable interest, to the borough's general fund.

Partial Compliance With Prior Audit Recommendation

Saint Clair Borough has partially complied with the prior audit recommendation concerning the following:

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials reimbursed \$8,029, plus applicable interest, to the borough's general fund; however, municipal officials failed to reconcile the amount of state aid allocated to the non-uniformed pension plan after the application of available employee forfeitures with the pension plan's actual defined contribution pension costs in the year 2011, as disclosed in the Finding and Recommendation section of this report.

SAINT CLAIR BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Allocation Of State Aid In Excess Of Entitlement

Condition: As disclosed in the prior audit report, the borough allocated state aid to the non-uniformed pension plan in excess of the plan’s defined contribution pension costs in 2009 and 2010. During the current audit period, municipal officials reimbursed \$8,029 to the borough’s general fund for the excess state aid allocated; however, municipal officials failed to reconcile the amount of state aid allocated to the non-uniformed pension plan after the application of available employee forfeitures with the pension plan’s actual defined contribution pension costs in the year 2011, as illustrated below:

State aid allocation	\$ 16,240
Employee forfeitures available	5,882
Actual municipal pension costs	<u>(16,772)</u>
Excess state aid	<u><u>\$ 5,350</u></u>

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 plan 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.

Section 3.01(A) of the plan’s Money Purchase Joinder Agreement states, in part:

The Employer shall make contributions to the Plan which, together with forfeitures, shall be in an amount equal to \$335 per employee per month.

SAINT CLAIR BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Section No. 8.06 of the plan’s Money Purchase Plan Joinder document, states:

Forfeitures will be used to reduce the Employer’s contribution to the Plan attributable to the Plan year in which such forfeitures occurred (or in the year immediately subsequent thereto) including any administrative expenses incurred in the plan: any excess of said forfeitures over the said contributions shall be held in a suspense account and applied as soon as possible to reduce Employer contributions attributable to subsequent Plan Years.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: It is this department’s opinion that, since 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 received in one year to offset pension costs in other years; however, the borough does have the option to allocate the excess state aid to its defined benefit police pension plan.

Recommendation: We recommend that municipal officials allocate the \$5,350 of excess state aid to the borough’s defined benefit police pension plan.

In addition, we recommend that in the future, plan officials annually reconcile the amount of state aid allocated to the pension plan and any available employee forfeitures with the plan’s annual defined contributions pension costs.

Management’s Response: Municipal officials agreed with the finding without exception. Borough officials have corrected the problem by having the borough secretary and treasurer consult with each other prior to making the minimum municipal obligation payment to ensure that all forfeitures have been properly used. Furthermore, plan officials will annually reconcile the amount of state aid allocated to the pension plan and any available employee forfeitures with the plan’s annual defined contributions pension costs.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

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

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 15,120	\$ 1,500
2009	16,523	None
2010	9,623	None
2011	10,890	None
2012	17,680	None
2013	14,588	2,992

Note: In 2011, the borough met the plan's \$16,772 funding requirement through the deposit of \$10,890 in state aid and \$5,882 in terminated employee forfeitures.

SAINT CLAIR BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Saint Clair Borough Non-Uniformed Pension Plan
Schuylkill County
16 South Third Street
Saint Clair, PA 17970

The Honorable Richard E. Tomko	Mayor
Mr. James D. Larish	Council President
Mr. Roland Price, Jr.	Secretary

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.