

COMPLIANCE AUDIT

Stewartstown Borough Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

November 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
Stewartstown Borough
York County
Stewartstown, PA 17363

We have conducted a compliance audit of the Stewartstown 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 the 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 Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

Stewartstown Borough contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ending December 31, 2011 and 2012, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

The Stewartstown Borough Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

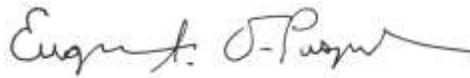
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Stewartstown Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Stewartstown 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 –
Failure To Properly Fund Members' Accounts

The contents of this report were discussed with officials of Stewartstown 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.

October 29, 2014



EUGENE A. DEPASQUALE
Auditor General

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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 Stewartstown 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Stewartstown Borough Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2006-02, as amended, and a separately executed plan agreement, adopted pursuant to Act 15. The plan was established January 1, 1991. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's compensation based on the members' regular work hours which does not include overtime or commissions earned. As of December 31, 2013, the plan had 7 active members, 6 terminated members eligible for vested benefits in the future, and 2 retirees receiving pension benefits funded through annuities purchased with plan assets.

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

During the current audit period, the borough reimbursed \$1,833 to the Commonwealth for the overpayment of state aid received in 2010.

Partial Compliance With Prior Audit Recommendation

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

- Failure To Properly Fund Members' Accounts

During the current audit period, the borough made the necessary adjustments to the members' accounts to correct the errors made in the years 2009 and 2010; however, the borough did not properly fund the accounts of 12 members in 2011 as further discussed in the Finding and Recommendation section of this report.

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts

Condition: As disclosed in prior audit report, the borough did not properly fund plan members’ accounts in 2009 and 2010. During the current audit period, the borough made the necessary adjustments to the members’ accounts to correct the errors made in the years 2009 and 2010; however, the borough overfunded the accounts of 12 members in 2011 in the total amount of \$3,255, as illustrated below:

<u>2011 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Excess Contributions</u>
1	\$ 4,389	\$ 4,575	\$ 186
2	966	1,575	609
3	3,634	3,748	114
4	1,859	1,900	41
5	3,348	4,382	1,034
6	2,096	2,171	75
7	3,819	3,936	117
8	1,658	1,679	21
9	3,108	3,217	109
10	6,011	6,462	451
11	2,694	3,065	371
12	3,482	3,609	127
		Total	<u>\$ 3,255</u>

The excess contributions made to the members’ accounts were funded through the borough’s 2011 state aid allocation.

Criteria: Resolution No. 2010-02 established the municipal contribution rate for the calendar year 2011 at 10 percent of compensation based on the members’ regular work hours which does not include overtime or commissions earned.

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, 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: Plan officials failed to establish adequate internal control procedures to ensure that only eligible compensation was included in the calculation of contributions in accordance with the provisions contained in the plan's governing document.

Effect: The failure to properly fund the members' accounts could result in plan members receiving additional benefits to which they are not entitled in accordance with the plan's governing document.

In addition, 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 pension plan, which is now with the Southern Regional Police Pension Plan.

Recommendation: We recommend that the borough review the applicable members' accounts and make the adjustments deemed necessary to ensure they are funded in accordance with the provisions contained in the plan's governing document. Once the adjustments are made, the resulting excess state aid that is withdrawn from the members' accounts should be deposited into the Southern Regional Police Pension Plan.

We also again recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

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

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

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

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 29,284	\$ 2,339
2009	25,947	13,987
2010	37,858	12,049
2011	32,106	None
2012	15,726	17,355
2013	13,861	None

STEWARTSTOWN BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Stewartstown Borough Non-Uniformed Pension Plan
York County
6 North Main Street
Stewartstown, PA 17363

The Honorable Bonner Smith	Mayor
Mr. Gordon Wisnom, Sr.	Council President
Ms. Stacy Meyer	Chief Administrative Officer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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.