

APOLLO BOROUGH NONUNIFORMED PENSION PLAN

ARMSTRONG COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004, TO DECEMBER 31, 2006



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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, 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 Apollo Borough 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 Apollo Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of collective bargaining agreements between the borough and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality is required to contribute \$90 per week, per employee.



The Honorable Mayor and Borough Council
Apollo Borough
Armstrong County
Apollo, PA 15613

We have conducted a compliance audit of the Apollo Borough Nonuniformed Pension Plan for the period January 1, 2004, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. The borough 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.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Apollo Borough 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 borough's internal control structure as it relates to the borough'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 Apollo Borough 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 – Partial Compliance With Prior Audit Recommendation -
Failure To Fully Fund Members' Accounts

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

May 7, 2007

JACK WAGNER
Auditor General

APOLLO BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Apollo Borough has complied with the prior audit recommendations concerning the following:

- Incorrect Data Submitted On Actuarial Valuation Report Resulting In An Overpayment Of State Aid
- Receipt Of State Aid In Excess Of Entitlement

The borough reimbursed \$6,973 to the Commonwealth for the overpayments of state aid; and

- Improper Ownership Of Allocated Insurance Contract

During the current audit period, the ownership of the allocated insurance contract was properly transferred to Apollo Borough.

Partial Compliance With Prior Audit Recommendation

- Failure To Fully Fund Members' Accounts

During the audit period, the borough deposited the 2001 and 2003 contributions due, with interest, to the accounts of four plan members. However, the contribution amounts for two of the members were credited to the wrong member's account, as further discussed in the Findings and Recommendations section of this report.

APOLLO BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Fund Members’ Accounts

Condition: In an attempt to comply with our prior audit recommendation, the borough deposited the delinquent employer contributions due to the accounts of four plan members. However, the contributions of \$2,183 and \$184 due for two of the plan members, hired June 15, 1998, and August 2, 2001, respectively, were credited to the wrong member’s accounts.

Criteria: Plan members should receive the employer contribution that is due pursuant to the plan’s governing document.

Cause: Borough officials failed to reconcile the contributions made with the actual deposits credited to the individual member’s accounts.

Effect: The failure to receive the correct employer contribution will result in plan members receiving incorrect pension benefits.

Recommendation: We recommend that the borough adjust the member’s accounts to reflect the correct amounts of employer contributions due, with interest. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that municipal officials develop adequate internal control procedures to ensure that employer contributions are deposited timely and accurately into the appropriate members’ accounts.

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

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

Condition: The borough certified one ineligible nonuniformed employee (1 unit) and overstated payroll by \$24,054 in 2006 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.

APOLLO BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 plans. Since the borough’s state aid allocation was based on pension costs, the effect of the incorrect certification of pension data on the borough’s state aid allocation is identified below:

Normal Cost	Payroll Overstate d	State Aid Overpayment
19.25292%	\$ 24,054	\$ 4,631

Recommendation: We recommend that the \$4,631 of excess state aid be reimbursed 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.

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.

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

APOLLO BOROUGH NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 2 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$4,631. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, 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.

APOLLO BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS - CASH BASIS

Year Ended December 31	State Aid Deposited	Employer Contributions
2001	\$ 9,590	\$ 2,733
2002	13,815	225
2003	7,707	None
2004	9,360	None
2005	9,360	None
2006	9,404	390



APOLLO BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Apollo Borough Nonuniformed Pension Plan
Armstrong County
405 North Pennsylvania Avenue
Apollo, PA 15613

The Honorable Eric Andring	Mayor
Mr. John C. Ameno, Jr.	Council President
Ms. Christine Charlesworth	Secretary

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.