

**APOLLO BOROUGH POLICE PENSION PLAN**

**ARMSTRONG COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2004, TO DECEMBER 31, 2006**





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## **BACKGROUND**

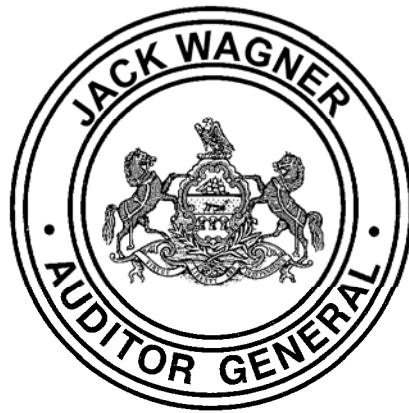
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, 53 P.S. §895.101, et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to 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 Police 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943, (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1, et seq.

The Apollo Borough Police Pension Plan is a single-employer pension plan operating pursuant to Act 120. The plan is affected by the provisions of collective bargaining agreements between the borough and its police officers. Active members are not required to contribute to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts.





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

We have conducted a compliance audit of the Apollo Borough Police 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 finding 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 Police 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 Police 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 – Failure To Deposit The Full Amount Of State Aid Into The  
Pension Plan

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 POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Rescission Of Prior Audit Recommendation

The following prior audit recommendation has been rescinded:

- Ordinance Improperly Amended By Resolution

Resolution No. 191-00, which restated Ordinance No. 276-95, as amended, is no longer applicable, since this resolution specifically provided pension benefits only to the former police chief who retired on December 31, 2005.

APOLLO BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: The municipality did not deposit the full amount of its 2005 and 2004 state aid allocations into the pension plan. The municipality received its 2005 and 2004 state aid allocations in the amounts of \$10,043 and \$9,796, on September 27, 2005, and October 4, 2004, respectively, but as of the date of this audit report, only \$9,360 of 2005 state aid and \$9,360 of 2004 state aid was deposited into the pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the full amount of the state aid allocations were deposited into the pension plan.

Effect: When state aid is not deposited into the pension plan, the funds are not available to provide retirement benefits or for investment purposes.

Recommendation: We recommend that the municipality allocate the remaining state aid allocations of \$683 for 2005 and \$436 for 2004, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, to the member who retired December 31, 2005.

We also recommend plan officials develop and implement adequate internal control procedures to ensure that future state aid is deposited into the pension plan within 30 days of receipt by the municipal treasurer.

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

APOLLO BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless the finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

APOLLO BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS – CASH BASIS

Year Ended December 31	State Aid Deposited	Employer Contributions
2001	None	None
2002	None	None
2003	None	None
2004	None	None
2005	None	None
2006	\$ 4,587	None

APOLLO BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Apollo Borough Police 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](http://www.auditorgen.state.pa.us).