

EDWARDSVILLE BOROUGH FIREMEN'S PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



EDWARDSVILLE BOROUGH FIREMEN'S PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Finding	7
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts.....	8
Supplementary Information	9
Report Distribution List	11

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.

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 Edwardsville Borough Firemen's 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 581 - The Borough Code, Act of February 1, 1966 (P.L. 1656, No. 581), as amended, 53 P.S. § 46131 et seq.

The Edwardsville Borough Firemen's Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 31-98, as amended, adopted pursuant to Act 581. The plan is also affected by the provisions of collective bargaining agreements between the borough and its firefighters. Active members are required to contribute 6 percent of compensation to the plan. The municipality is required to contribute 6 percent of each member's compensation.



The Honorable Mayor and Borough Council
Edwardsville Borough
Luzerne County
Edwardsville, PA 18704

We have conducted a compliance audit of the Edwardsville Borough Firemen's Pension Plan for the period January 1, 2009, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- 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 refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.

Edwardsville Borough contracted with an independent certified public accounting firm for annual audits of its general purpose financial statements 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Edwardsville Borough Firemen's 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 Edwardsville Borough Firemen's 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:

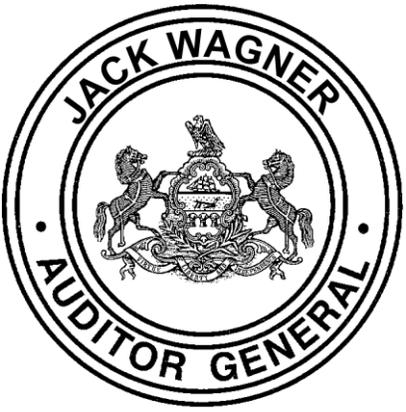
Finding – Partial Compliance With Prior Audit Recommendation –
Failure To Fund Members' Accounts

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 Edwardsville Borough and, where appropriate, their responses have been included in the report.

August 10, 2012

JACK WAGNER
Auditor General



EDWARDSVILLE BOROUGH FIREMEN'S PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

- Failure To Fund Members' Accounts

The borough deposited the 2004, 2005, 2006, 2008 and 2009 employer contributions due to the members' accounts with applicable interest; however, plan officials failed to establish adequate internal control procedures to ensure that the members' accounts were funded in 2010 and 2011 in accordance with the plan's governing document, as further discussed in the Finding and Recommendation section of this report.

EDWARDSVILLE BOROUGH FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: As disclosed in the prior audit report, the borough did not fully fund the members' accounts in 2004, 2005, 2006, 2008 and 2009. During the current audit period, the borough deposited the employer contributions due to the members' accounts with applicable interest; however, plan officials failed to properly fund the members' accounts in 2010 and 2011 as illustrated below:

	<u>2010</u>	<u>2011</u>
Municipal contributions required	\$ 7,272	\$ 6,965
State aid deposited	<u>(6,899)</u>	<u>(6,100)</u>
Amount due members' accounts	<u>\$ 373</u>	<u>\$ 865</u>

Criteria: The plan's governing document, Ordinance No. 31-98, as amended, sets the municipal contribution rate at 6 percent of each member's compensation.

Cause: Plan officials failed to annually reconcile the contributions required to the actual deposits made to the plan. In addition, plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Furthermore, due to the borough's failure to properly fund the members' accounts, the borough must now pay interest on the delinquent contributions.

Recommendation: We recommend that the borough deposit the contributions due to the members' accounts for the years 2010 and 2011, with interest. A copy of the interest calculations must be maintained by the borough for examination during our next audit of the plan.

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

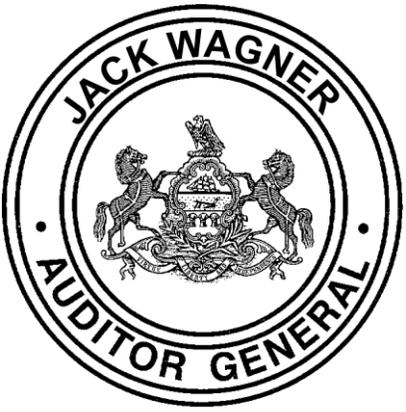
Management's Response: Municipal officials agreed with the finding without exception. The borough manager will confer with the borough's solicitor to determine the proper amounts to be deposited to the firemen's pension plan for the years in question.

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

EDWARDSVILLE BOROUGH FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 7,816	\$ 2,003
2007	8,282	929
2008	8,588	813
2009	9,046	597
2010	6,899	None
2011	6,100	None



EDWARDSVILLE BOROUGH FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Edwardsville Borough Firemen's Pension Plan
Luzerne County
470 Main Street
Edwardsville, PA 18704

The Honorable Bernard J. Dubaskas	Mayor
Mr. David Stochla	Council President
Mr. Charles Szalkowski	Borough Manager

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.