

EDWARDSVILLE BOROUGH NONUNIFORMED PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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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.

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 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 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 Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 32-98, adopted pursuant to Act 581. 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 Nonuniformed 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 Nonuniformed 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 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 Fund Members’ Accounts

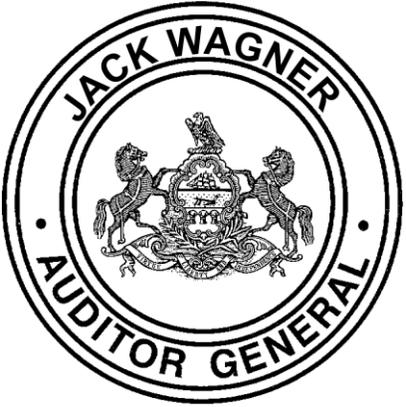
Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In
An Underpayment Of State Aid

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

August 10, 2012

JACK WAGNER
Auditor General



EDWARDSVILLE BOROUGH NONUNIFORMED 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 2005 and 2006 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 2009, 2010 and 2011, in accordance with the plan's governing document, as further discussed in the Findings and Recommendations section of this report.

EDWARDSVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 2005 and 2006. During the current audit period, the borough deposited the 2005 and 2006 employer contributions due to the members’ accounts with applicable interest; however, plan officials failed to properly fund the members’ accounts in 2009, 2010 and 2011, as illustrated below:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Municipal contributions required	\$ 8,058	\$ 10,333	\$ 10,698
State aid deposited	<u>(7,520)</u>	<u>(8,857)</u>	<u>(8,500)</u>
Amount due members’ accounts	<u>\$ 538</u>	<u>\$ 1,476</u>	<u>\$ 2,198</u>

Criteria: The plan’s governing document, Ordinance No. 32-98, 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 full 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 2009, 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.

EDWARDSVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 nonuniformed pension plan for the years in question.

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

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

Condition: The borough failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$29,814 on the Certification Form AG 385 filed in 2010. In addition, the borough understated nonuniformed payroll by \$1,607 on the Certification Form AG 385 filed in 2011. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Furthermore, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

EDWARDSVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the borough for distribution to its pension plans. Because the borough’s state aid allocation for the year 2010 was based on unit value and for the year 2011 was based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2010	1	\$3,235			\$ 3,235
2011			6.0%	\$ 1,607	\$ 96
Total Underpayment of State Aid					<u>\$ 3,331</u>

Although the borough will be reimbursed for the underpayment of state aid due to the borough’s certification errors, the full amount of the 2010 and 2011 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

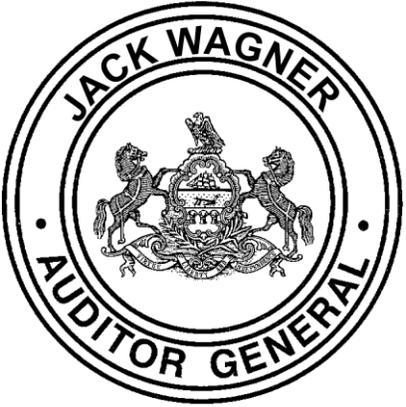
Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

EDWARDSVILLE BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 5,308	\$ 422
2007	6,300	None
2008	6,500	600
2009	7,520	None
2010	8,857	None
2011	8,500	None



EDWARDSVILLE BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Edwardsville Borough Nonuniformed 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.