

**HAMBURG BOROUGH NONUNIFORMED PENSION PLAN**

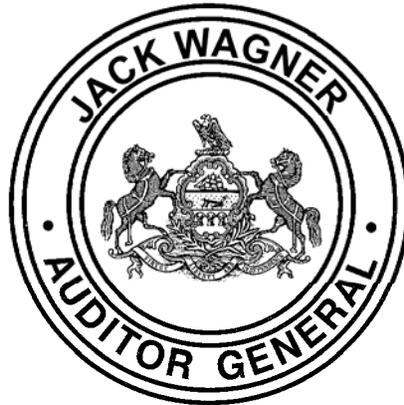
**BERKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





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**BERKS COUNTY**

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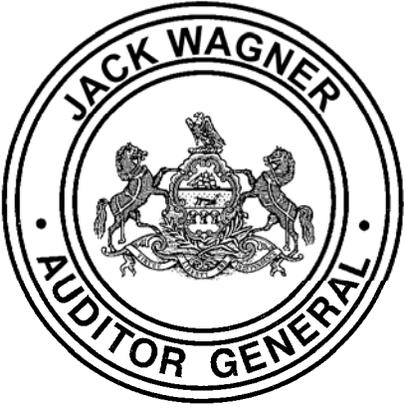
## **BACKGROUND**

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 Hamburg 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 Hamburg Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 694-00.



The Honorable Mayor and Borough Council  
Hamburg Borough  
Berks County  
Hamburg, PA 19526

We have conducted a compliance audit of the Hamburg Borough Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2009. 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. Hamburg Borough contracted with an independent certified public accounting firm for annual audits of its basic 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 Hamburg 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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Hamburg 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent  
Pension Benefits

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

March 23, 2011

JACK WAGNER  
Auditor General

HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Hamburg Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Inconsistent Pension Benefits

**HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS**

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan’s governing document, Ordinance No. 694-00, contains benefit provisions that conflict with information contained in the plan’s actuarial valuation reports dated January 1, 2001, 2003, 2005 and 2007. In addition, the inconsistencies remain in the January 1, 2009, actuarial valuation report as noted below:

| <u>Benefit Provision</u> | <u>Governing Document</u>  | <u>Actuarial Valuation Reports</u>   |
|--------------------------|--|--|
| Normal retirement age    | 65 <sup>th</sup> birthday  | 62 <sup>nd</sup> birthday  |
| Survivor benefit         | None   | 50 percent of accrued benefit  |
| Vesting                  | 25% after 5 years, and 5% for each year thereafter   | 25% after 5 years, increasing 5% each year to 10 years...then increasing 10% each year to 15 years                               |
| Retirement benefit       | 1% of monthly salary for each year of service up to a maximum of 25 years...paid for life with guarantee of 120 months | 1% of last 36 months average monthly compensation times credited years of service. Normal form is joint & 50% survivor annuity   |
| Disability benefit       | Normal retirement accrued to the date of disability  | Based on accrued benefit at date of disability offset by Social Security, workmen’s compensation, or borough-funded benefit      |
| Late retirement benefit  | None disclosed   | ...the actuarial equivalent of the accrued benefit determined at normal retirement age payable as a joint & 50% survivor annuity |

Criteria: The benefit provisions in the plan’s governing document should be consistent with the information contained in the actuarial valuation reports to ensure the consistent, sound administration and proper funding of the pension plan.

HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding – (Continued)

Cause: Borough officials have arranged for an updated ordinance to be prepared by their solicitor; however, the amended ordinance has yet to be completed and adopted by borough council.

Effect: Inconsistent benefit provisions could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials ensure that the benefit provisions contained in the plan's governing document are consistent with the information contained in the plan's actuarial valuation reports at their earliest opportunity to do so.

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

HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        | (5)                       | (6)   |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability as a %<br>of Payroll<br>[(b-a)/(c)] |
| 01-01-05                       | \$ 648,702                             | \$ 787,806   | \$ 139,104   | 82.3%                      | \$ 475,896                | 29.2%   |
| 01-01-07                       | 782,752                                | 960,684  | 177,932  | 81.5%                      | 606,724                   | 29.3%   |
| 01-01-09                       | 840,336                                | 1,187,594  | 347,258  | 70.8%                      | 668,763                   | 51.9%   |

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2004                   | \$ 18,460                    | 132.5%                 |
| 2005                   | 32,819                       | 103.9%                 |
| 2006                   | 35,054                       | 100.0%                 |
| 2007                   | 40,218                       | 100.0%                 |
| 2008                   | 43,034                       | 100.0%                 |
| 2009                   | 51,770                       | 100.0%                 |

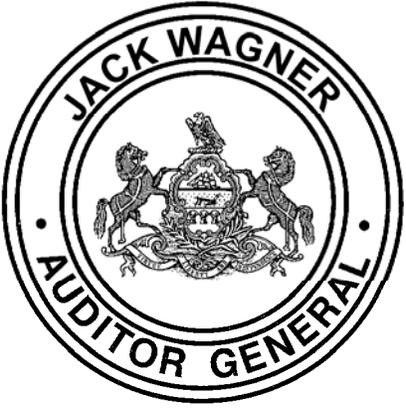
HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

|                               |   |
|-------------------------------|---|
| Actuarial valuation date      | January 1, 2009   |
| Actuarial cost method         | Entry age normal  |
| Amortization method           | Level dollar  |
| Remaining amortization period | 11 years  |
| Asset valuation method        | Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets. |

Actuarial assumptions:

|                              |               |
|------------------------------|---------------|
| Investment rate of return *  | 7.0%          |
| Projected salary increases * | 4.0%          |
| * Includes inflation at      | Not disclosed |
| Cost-of-living adjustments   | None assumed  |



HAMBURG BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Hamburg Borough Nonuniformed Pension Plan  
Berks County  
61 North Third Street  
Hamburg, PA 19526

|                                  |                   |
|----------------------------------|-------------------|
| The Honorable Roy C. Del Rosario | Mayor             |
| Ms. Martha Bertolet              | Council President |
| Ms. Lynda Albright               | 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](http://www.auditorgen.state.pa.us).