

HASTINGS BOROUGH POLICE PENSION PLAN

CAMBRIA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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ABBREVIATION

PERC - Public Employee Retirement Commission

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 Hastings 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 Hastings Borough Police Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 1996-7, as amended, adopted pursuant to Act 120. Active members are not required to contribute to the plan. The municipality is required to annually contribute \$4,908 per member.



The Honorable Mayor and Borough Council
Hastings Borough
Cambria County
Hastings, PA 16646

We have conducted a compliance audit of the Hastings Borough Police Pension Plan for the period January 1, 2005, to December 31, 2007. 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 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 an immaterial amount of reportable assets.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Hastings 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 Hastings 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 – Receipt Of State Aid In Excess Of Entitlement

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

July 23, 2008

JACK WAGNER
Auditor General

HASTINGS BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

· Receipt Of State Aid In Excess Of Entitlement

The borough reimbursed \$4,908 to the Commonwealth for the excess state aid received in 2004; and

· Failure To Prepare Financial Statements

Borough officials prepared annual financial statements for the pension plan during the audit period.

HASTINGS BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: In 2007, the police pension plan was allocated state aid in the amount of \$4,406, even though it maintains a side fund which, as of December 31, 2007, had a balance of \$108,576 which is irrevocably committed to funding the police pension plan. Because the balance in the side fund exceeded the plan's defined contribution amount for 2007, the municipality was not entitled to receive state aid for this plan in 2007, since it had no net pension costs.

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system State aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plans for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: The plan maintains assets in a side fund which must be used to fund required municipal contributions. Therefore, the plan is ineligible for further state aid allocations until the side fund is fully liquidated.

Effect: It is this department's opinion that since the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. Consequently, the overpayment of state aid in the year 2007, in the total amount of \$4,406, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$4,406 of excess state aid received in the year 2007 to the Commonwealth from the police pension plan. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the 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 evidence of payment.

We also recommend that borough officials contact the Public Employee Retirement Commission (PERC) for guidance on the appropriate reporting of the side fund on the plan's future actuarial valuation reports.

HASTINGS BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, since the pension plan has a side fund irrevocably committed to fund the plan, we recommend the borough establish adequate internal control procedures to ensure that state aid and municipal contributions are not allocated to the pension plan until the side fund is fully liquidated.

Management's Response: Municipal officials agreed with the finding without exception. The borough reimbursed \$4,541 to the Commonwealth from the plan's side fund account for the excess state aid received in 2007.

Auditor Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

HASTINGS BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	None	\$ 3,688
2003	None	4,908
2004	None	4,908
2005	None	4,908
2006	None	4,908
2007	None	4,908

HASTINGS BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Hastings Borough Police Pension Plan
Cambria County
207 Fifth Avenue
P.O. Box 559
Hastings, PA 16646

The Honorable Samuel Grillo	Mayor
Mr. Christopher Gibbons	Council President
Mr. Joseph B. Overberger	Treasurer
Ms. Barbara Holtz	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.