

**HONESDALE BOROUGH NONUNIFORMED PENSION PLAN**

**WAYNE 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 Honesdale 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 Honesdale Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 07-12-93-01, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute \$3,000 per year per eligible participant, except participants who entered the plan year on a July 1 entry date, in which case the employer contribution for the year of entry would be \$1,500.





The Honorable Mayor and Borough Council  
Honesdale Borough  
Wayne County  
Honesdale, PA 18431

We have conducted a compliance audit of the Honesdale Borough Nonuniformed 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 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. Honesdale 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.

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 Honesdale Borough Nonuniformed 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 Honesdale 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 – Noncompliance With Prior Audit Recommendation –  
Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

Finding No. 2 – Allocation 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 Honesdale Borough and, where appropriate, their responses have been included in the report.

September 11, 2007

JACK WAGNER  
Auditor General

HONESDALE BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Honesdale Borough has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The borough reimbursed \$2,479 to the Commonwealth for the overpayment of state aid.

Noncompliance With Prior Audit Recommendation

Honesdale Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

HONESDALE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Municipal Contributions  
Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in the prior audit report, the borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in the year 2002. Furthermore, during the current audit period, the borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in the years 2004 and 2006, as illustrated below:

	<u>2002</u>	<u>2004</u>	<u>2006</u>	<u>Total</u>
Actual municipal pension Costs	\$ 31,078	\$ 39,101	\$ 38,292	\$ 108,471
Less: Forfeitures	<u>( 3,265)</u>	<u>( 4,773)</u>	<u>( 13,811)</u>	<u>( 21,849)</u>
Net municipal pension costs	27,813	34,328	24,481	86,622
State aid allocated	<u>( 25,878)</u>	<u>( 30,415)</u>	<u>( 32,656)</u>	<u>( 88,949)</u>
Municipal contributions required to fund plan	1,935	3,913	-	5,848
Actual municipal contributions made	<u>( 3,047)</u>	<u>( 5,585)</u>	<u>( 4,344)</u>	<u>( 12,976)</u>
Excess municipal Contributions	<u>\$ 1,112</u>	<u>\$ 1,672</u>	<u>\$ 4,344</u>	<u>\$ 7,128</u>

Criteria: For the year 2002, Section 3.01 of the joinder agreement dated September 9, 2002, states, in part:

\$2,225 per year per eligible participant, except Participants who entered the Plan year on a July 1 Entry Date, in which case the Employer Contribution for the year of entry would be \$1,112.50.

HONESDALE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

For the years 2004 and 2006, Section 3.01 of the joinder agreement dated November 10, 2003, states, in part:

\$3,000 per year per eligible participant, except Participants who entered the Plan year on a July 1 Entry Date, in which case the Employer Contribution for the year of entry would be \$1,500.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation to ensure that municipal contributions would not exceed the required contributions authorized by the plan's governing document.

In addition, the application of forfeitures reduced the plan's net defined contribution pension costs.

Effect: The municipality allocated funds to the members' accounts in excess of the defined contribution rate authorized by the plan's governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

It is the opinion of this department that the borough's failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the municipal contributions maintained in the members' accounts at this time.

Recommendation: We again recommend that the borough, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the borough.

We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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

HONESDALE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2006, the borough allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

	<u>2006</u>
State aid allocation	\$ 32,656
Less: Actual municipal pension (costs)	<u>24,481</u>
Excess state aid	<u>\$ 8,175</u>

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 plan 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: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs.

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. The borough does have the option to allocate the excess state aid to its defined benefit pension plan. If this option is not selected, the overpayment of state aid in 2006, in the total amount of \$8,175, must be returned to the Commonwealth for redistribution.

HONESDALE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that municipal officials either allocate the \$8,175 of excess state aid to their defined benefit pension plan or return it to the Commonwealth. 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 the check.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan and municipal contributions made to the pension plan with the pension plan's defined contribution pension costs.

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

HONESDALE BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2001	\$ 16,415	\$ 6,947
2002	25,878	3,047
2003	27,812	None
2004	30,415	5,585
2005	27,695	8,305
2006	32,656	4,344



HONESDALE BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Honesdale Borough Nonuniformed Pension Plan  
Wayne County  
958 Main Street  
Honesdale, PA 18431

The Honorable Jonathan Fritz	Mayor
Mr. Gerald Ennis	Council President
Ms. Tammy Jensen	Chief Administrative Officer
Ms. Patricia Seipp	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).