

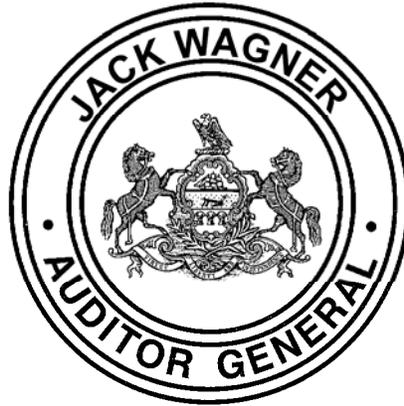
MAHANOEY CITY BOROUGH NONUNIFORMED PENSION PLAN

SCHUYLKILL COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



MAHANoy CITY BOROUGH NONUNIFORMED PENSION PLAN

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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Finding	5
Findings and Recommendations:	
Finding No. 1 – Failure To Fund Members’ Accounts	6
Finding No. 2 – Receipt Of State Aid In Excess Entitlement	7
Finding No. 3 – Withdrawal Of Plan Assets Prior To Superannuation Retirement Date	8
Supplementary Information	10
Report Distribution List	11

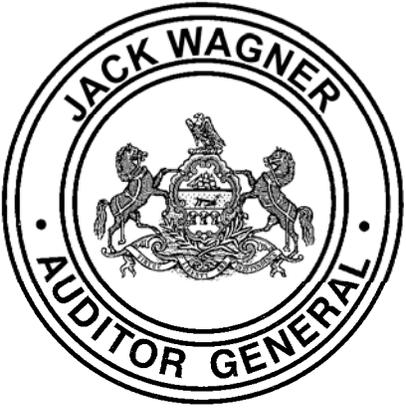
BACKGROUND

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 Mahanoy City 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 Mahanoy City Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 96-4, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality was required to contribute 12 percent of each member's compensation for the year 2006, 14 percent of each member's compensation for the year 2007, and 16 percent of each member's compensation for the year 2008.



The Honorable Mayor and Borough Council
Mahanoy City Borough
Schuylkill County
Mahanoy City, PA 17948

We have conducted a compliance audit of the Mahanoy City Borough Nonuniformed Pension Plan for the period January 1, 2006, to December 31, 2008. 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.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Mahanoy City 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 Mahanoy City 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 – Failure To Fund Members’ Accounts

Finding No. 2 – Receipt Of State Aid In Excess of Entitlement

Finding No. 3 – Withdrawal Of Plan Assets Prior To Superannuation Retirement Date

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

June 12, 2009

JACK WAGNER
Auditor General

MAHANOEY CITY BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Mahanoy City 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 \$3,257 to the Commonwealth for the overpayment of state aid.

MAHANOEY CITY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Fund Members’ Accounts

Condition: In 2006, the borough did not fund the members’ accounts at the established rate of 12 percent for the months of January, February and March. The borough only contributed at a rate of 10 percent for the first 3 months of 2006. A total of \$1,204 is due to the 8 members of the plan.

Criteria: Resolution No. 6-2006 established the municipal contribution rate at 12 percent of wages per full-time employee effective January 1, 2006.

Cause: Borough officials failed to establish adequate internal control procedures to ensure that member contributions for the year 2006 were made pursuant to the terms of an updated collective bargaining agreement.

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.

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 year 2006, 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 recommend that borough officials establish adequate internal control procedures to ensure that the accounts of all eligible plan members are funded in accordance with the established defined contribution rate.

Management’s Response: Municipal officials indicated that they would provide a written response to this finding within 10 days; however, no such response has been provided.

MAHANOEY CITY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: The borough received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs in the year 2006, as illustrated below:

Actual municipal pension costs	\$	27,886
Forfeitures applied		<u>(5,704)</u>
Adjusted municipal pension costs	\$	<u>22,182</u>
State aid allocation	\$	23,111
Adjusted municipal pension costs		<u>(22,182)</u>
Excess state aid	\$	<u>929</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 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.

In addition, Ordinance No. 96-4, as amended, at Section 11 states, in part:

... Forfeitures of any amounts contributed by the Borough shall not act to increase the interest of the remaining participants, but shall be credited toward the current or succeeding year’s contribution by the Borough.

Cause: Municipal officials failed to reconcile the state aid allocated to the borough with the plan’s adjusted municipal 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. Consequently, the overpayment of state aid in the year 2006, in the total amount of \$929, must be returned to the Commonwealth for redistribution.

MAHANAY CITY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the municipality return the \$929 of excess state aid received in the year 2006 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 evidence of payment.

Management’s Response: Municipal officials indicated that they would provide a written response to this finding within 10 days; however, no such response has been provided.

Finding No. 3 – Withdrawal Of Plan Assets Prior To Superannuation Retirement Date

Condition: During the current audit period, 4 active plan members improperly received withdrawals from their retirement accounts prior to reaching the required superannuation retirement age of 65.

Criteria: Article IV, Section 1 of Ordinance No. 96-4, as amended, states, in part:

An employee shall be entitled to full benefits only after the requisite years of service with the Borough as established by the Plan Documents and attaining the age of 65 years.

In addition, Section 102 of Act 205 contains the following definitions:

8

MAHANAY CITY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not to be used for unauthorized distributions made prior to a plan member's superannuation retirement date.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that only authorized distributions were made to plan members based on their retirement benefit eligibility.

Effect: Allowing withdrawals of contract amounts prior to retirement violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of an annuitant and undermines the integrity of the pension plan.

Recommendation: We recommend that municipal officials establish adequate internal control procedures to ensure that only authorized distributions are made to plan members.

Management's Response: Municipal officials indicated that they would provide a written response to this finding within 10 days; however, no such response has been provided.

MAHANoy CITY BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 11,887	\$ 4,535
2004	16,286	383
2005	16,534	6,746
2006	20,978	None
2007	23,238	5,226
2008	25,765	9,105

MAHANoy CITY BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Mahanoy City Borough Nonuniformed Pension Plan
Schuylkill County
239 East Pine Street
Mahanoy City, PA 17948

The Honorable George F. Krall	Mayor
Mr. Thomas E. Oblas	Council President
Ms. Dorothy M. Lewis	Secretary/Treasurer

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.