

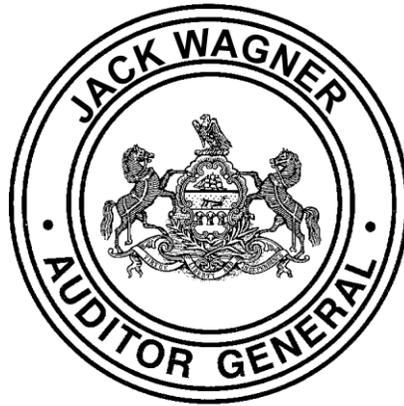
MILLVILLE BOROUGH NONUNIFORMED PENSION PLAN

COLUMBIA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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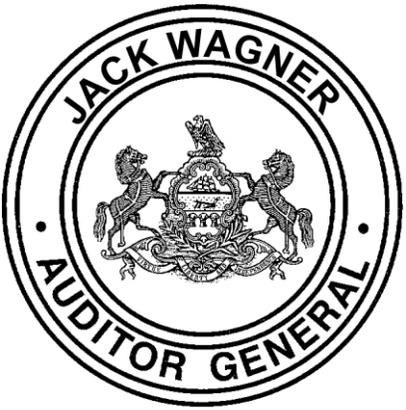
BACKGROUND

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 Millville 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 Millville Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 20001219.150, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 15 percent of each participant's compensation.



The Honorable Mayor and Borough Council
Millville Borough
Columbia County
Millville, PA 17846

We have conducted a compliance audit of the Millville 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 the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective 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 the terms of the unallocated insurance contract, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Millville 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Millville 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 – Improper Distribution Provision Contained In The Plan’s Governing Document

Finding No. 2 – Failure To Fund Members’ Accounts

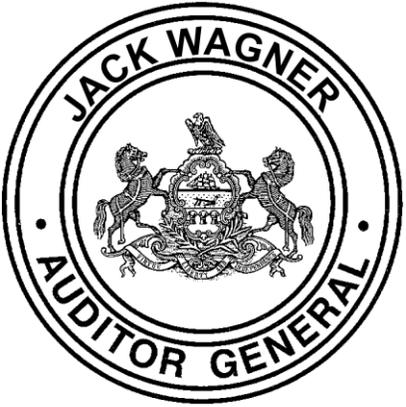
Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Millville Borough and, where appropriate, their responses have been included in the report.

August 27, 2012

JACK WAGNER
Auditor General



MILLVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Improper Distribution Provision Contained In The Plan’s Governing Document

Condition: The plan’s governing document, a plan agreement dated December 21, 2009, contains a provision which permits retirement benefit distributions to be made to plan members prior to their termination of employment. During 2011 and 2012, \$72,000 and \$7,000, respectively, maintained in an unallocated insurance contract were improperly withdrawn and distributed to an active member of the pension plan. Although the plan member at the time of the initial withdrawal was 62 years of age and fully vested in his account balance, he has yet to terminate his employment with the borough as of the date of this audit report.

Criteria: Article VI, at Section 6.11 of the plan agreement states, in part:

At such time as a participant shall have attained age 55 with 7 years of service or normal retirement age, the administer, at the election of the participant who has not severed employment with the employer, shall direct the trustee to distribute all or a portion of the amount then credited to all accounts maintained on behalf of the participant.

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

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments and not to be used for distributions to active members of a pension plan prior to their termination of employment with a municipality.

Cause: Plan officials were unaware that the plan’s governing document should not permit withdrawals of funds maintained for pension benefits to active employees prior to their termination of employment with the municipality.

MILLVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Distributions of plan assets prior to a member’s 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 amend the plan’s governing document to ensure that distributions cannot be made to active employees prior to their termination of employment with the municipality.

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

Auditor’s Conclusion: Compliance with the finding recommendation will be evaluated during our next audit of the plan. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future.

Finding No. 2 – Failure To Properly Fund Members’ Accounts

Condition: The borough did not fully fund the accounts of all members in 2010 and 2011 in the amounts of \$875 and \$680, respectively, as illustrated below:

<u>2010</u> <u>Employees</u>	<u>Actual</u> <u>Contributions</u>	<u>Required</u> <u>Contributions</u>	<u>Contributions</u> <u>Due</u>
1	\$ 5,577	\$ 5,895	\$ 318
2	5,577	5,895	318
3	4,195	4,434	239
Total			<u>\$ 875</u>
<u>2011</u> <u>Employees</u>	<u>Actual</u> <u>Contributions</u>	<u>Required</u> <u>Contributions</u>	<u>Contributions</u> <u>Due</u>
1	5,648	5,895	247
2	5,648	5,895	247
3	4,248	4,434	186
Total			<u>\$ 680</u>

MILLVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Resolution No. 20001219.RES, states in part:

“...the contribution made to the plan, on an annual basis by the municipality, shall be 15% of the total compensation received by the eligible participants in the prior calendar year.”

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The failure to properly fund the members’ accounts 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 accounts of the plan members, 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 2010 and 2011, with interest. A copy of the interest calculations should be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

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

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough understated the nonuniformed pension plan member’s payroll by \$1,352 on the Certification Form AG 385 filed in 2010. The data contained on this certification form 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.

MILLVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

In addition, 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.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough's state aid allocation was based on pension costs, the borough received an underpayment of state aid of \$194 as identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
14.37%	\$ 1,352	\$ 194

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification error, the full amount of the 2010 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

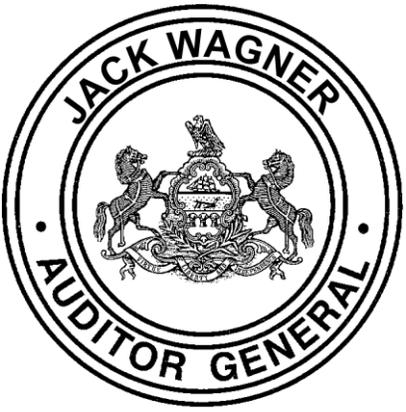
Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

MILLVILLE BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 14,181	None
2007	14,823	None
2008	15,065	None
2009	15,541	None
2010	15,349	None
2011	15,543	None



MILLVILLE BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Millville Borough Nonuniformed Pension Plan
Columbia County
P.O. Box 30
Millville, PA 17846

The Honorable Jerre Wright	Mayor
Mr. Roy Bower, Jr.	Council President
Ms. Beverly Lutcavage	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.