

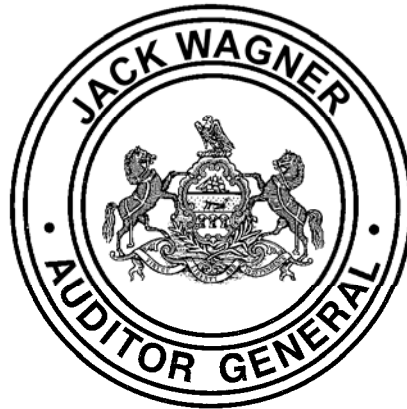
NORTH CHARLEROI BOROUGH NONUNIFORMED PENSION PLAN

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004, TO DECEMBER 31, 2006



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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Finding and Recommendation:	
Finding – Failure To Fully Fund Members’ Accounts	5
Supplementary Information	6
Report Distribution List	7

ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

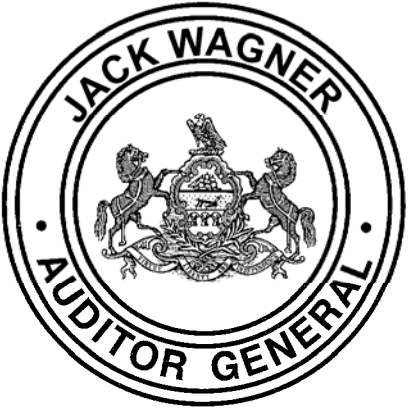
BACKGROUND

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 North Charleroi 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 North Charleroi Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of an ordinance dated May 20, 1996, and a joinder agreement with PSABMRT. Active members are not required to contribute to the plan. The municipality is required to contribute \$1,000 per year per participant.



The Honorable Mayor and Borough Council
North Charleroi Borough
Washington County
North Charleroi, PA 15022

We have conducted a compliance audit of the North Charleroi 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 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 this objective.

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 North Charleroi 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 objective.

The results of our tests indicated that, in all significant respects, the North Charleroi 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 – Failure To Fully Fund Members’ Accounts

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

August 1, 2007

JACK WAGNER
Auditor General

NORTH CHARLEROI BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Fully Fund Members’ Accounts

Condition: In September of 2006, the borough received its 2006 state aid allocation totaling \$1,824, which it forwarded to PSABMRT. However, the borough’s required contribution was \$2,000 for the plan’s two full-time members. As a result, the borough failed to fully fund the accounts of the two plan members by a total of \$176.

Criteria: The plan’s governing document, a PSABMRT money purchase plan joinder agreement, sets the municipal contribution rate at \$1,000 per year per full-time employee.

Cause: Borough officials did not have adequate funds available to fully fund the members’ accounts.

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 calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that, in the future, borough officials properly fund the accounts of all eligible plan members.

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

NORTH CHARLEROI BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2001	\$ 2,140	\$ 9
2002	2,085	665
2003	2,010	778
2004	2,218	None
2005	2,162	None
2006	1,824	None

NORTH CHARLEROI BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

North Charleroi Borough Nonuniformed Pension Plan
Washington County
555 Walnut Avenue
North Charleroi, PA 15022

The Honorable Alfred Agamedì	Mayor
Mr. Joseph Villella	Council President
Ms. Karen Jurczak	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.