

**TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN**

**BUCKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**





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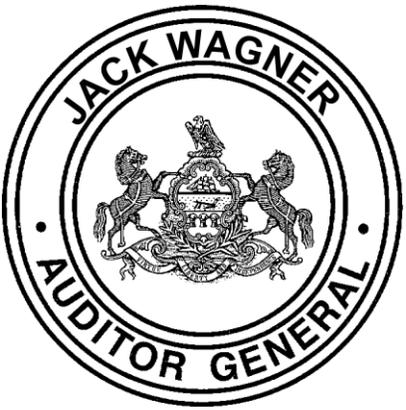
## **BACKGROUND**

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 Tullytown 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 Tullytown Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 336. 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 is required to contribute 7 percent of each member's compensation.



The Honorable Mayor and Borough Council  
Tullytown Borough  
Bucks County  
Tullytown, PA 19007

We have conducted a compliance audit of the Tullytown Borough Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2010. 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. Tullytown Borough contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2008, and audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania for the years ended December 31, 2009 and 2010, 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Tullytown 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 objectives, 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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Tullytown 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 – Partial Compliance With Prior Audit Recommendation -  
Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

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

June 15, 2011

JACK WAGNER  
Auditor General

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Failure To Fund Member's Account

The borough deposited \$23,415 for the contributions due to the plan member for the years 1988 through 2003.

Partial Compliance With Prior Audit Recommendation

Tullytown Borough has partially complied with the prior audit recommendation concerning the following:

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

The borough determined that the excess municipal contributions made in 2007 did not have to be withdrawn from the members' accounts; however, the borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan for the years 2008 and 2009, as further discussed in the Finding and Recommendation section of this report.

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding - Partial Compliance 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 2007. The borough determined that the excess municipal contributions made in 2007 did not have to be withdrawn from the members' accounts; however, the borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan for the years 2008 and 2009, as illustrated below:

	<u>2008</u>	<u>2009</u>	<u>Total</u>
Actual municipal pension costs	\$ 26,845	\$ 28,026	\$ 54,871
State aid allocated	<u>(22,304)</u>	<u>(25,024)</u>	<u>(47,328)</u>
Municipal contributions required to fund plan	<u>\$ 4,541</u>	<u>\$ 3,002</u>	<u>\$ 7,543</u>
Actual municipal contributions made	\$ 70,983	\$ 51,800	\$ 122,783
Municipal contributions required to fund plan	<u>(4,541)</u>	<u>(3,002)</u>	<u>(7,543)</u>
Excess municipal contributions	<u>\$ 66,442</u>	<u>\$ 48,798</u>	<u>\$ 115,240</u>

Criteria: Section 8.1 of Ordinance No. 336 states, in part:

The Employer shall make contributions on behalf of each Participant eligible to share in allocations in an amount equal to the percentage of Compensation defined in the then current AFSCME Collective Bargaining Agreement (the percentage rate for 2007, 2008 and 2009 is 7%). Only participants who are actively employed on the last day of the plan year shall be eligible to share in the allocation of contributions for the plan year.

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.

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding - (Continued)

Cause: The borough passed Ordinance No. 314 on December 4, 2007, in anticipation that the next collective bargaining agreement that would be in effect on January 1, 2008, would change the plan from a defined contribution to a defined benefit plan. However, the borough and its nonuniformed employees subsequently agreed to be bound by the 2003-2007 collective bargaining agreement until a new contract could be negotiated. Therefore, while the plan never changed to a defined benefit plan, the 2008 and 2009 minimum municipal obligations were determined and paid as if the plan was a defined benefit plan, resulting in excess municipal contributions.

Furthermore, municipal officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: As a result of the borough making contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, an unallocated reserve fund in the amount of \$115,240 was generated as of December 31, 2009.

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 unallocated reserve fund at this time.

Recommendation: We again recommend that the borough liquidate the unallocated reserve fund maintained by the nonuniformed pension plan by transferring the assets which represent nonstate aid funds, to the borough's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also again 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.

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF STATE AID  
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 20,497	\$ 3,324
2006	13,211	8,594
2007	22,444	8,197
2008	22,304	70,983
2009	25,024	51,800
2010	None	22,766

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Tullytown Borough Nonuniformed Pension Plan  
Bucks County  
500 Main Street  
Tullytown, PA 19007

The Honorable David Cutchineal	Mayor
Mr. Bryan Servis	Council President
Mr. Carmen Raddi	Borough Manager
Ms. Danielle Vacirca	Borough 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](http://www.auditorgen.state.pa.us).