

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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. 299. 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, 2005, to December 31, 2007. 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 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. Tullytown Borough contracted with an independent certified public accounting firm for annual audits of its general purpose 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.

Borough officials are responsible for establishing and maintaining an internal control structure 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. 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 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 findings further discussed later in this report:

Finding No. 1 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The Plan

Finding No. 2 – Failure To Fund Member's Account

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.

August 6, 2008

JACK WAGNER
Auditor General

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2007</u>
Actual municipal pension costs	\$ 26,656
State aid allocated	<u>(22,444)</u>
Municipal contributions required to fund plan	<u>\$ 4,212</u>
Actual municipal contributions made	\$ 8,197
Municipal contributions required to fund plan	<u>(4,212)</u>
Excess municipal contributions	<u>\$ 3,985</u>

Criteria: Section VIII of Ordinance No. 299 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 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.

Cause: The borough did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

Effect: The municipality allocated funds to the pension plan in excess of the defined contribution percentage rate contained in the plan's governing document.

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 pension plan at this time.

Recommendation: We recommend that the borough, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the pension plan 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 Response: Municipal officials agreed with the finding without exception.

Finding No. 2 – Failure To Fund Member's Account

Condition: For the years 1988 through 2003, the borough did not fund the account of a member who became a full-time employee on January 1, 1988.

Criteria: Ordinance No. 299 at Section 1.6 defines 'entry date as the first of the month coincident with or next following the completion of one full year of service and the attainment of twenty-one (21) as a full-time non-uniformed employee.

Furthermore Ordinance No. 299 at Section 4.1 states each full-time non-uniformed employee of the borough shall be eligible to participate in the plan as of the employee's entry date.

Cause: The employee was previously part-time and then became full time in 1988. Borough officials failed to establish adequate internal control procedures to ensure the employee was entered into the plan upon reaching eligibility.

Effect: The failure to properly fund the member's account will result in the member being denied benefits to which she is entitled in accordance with the plan's governing document.

Due to borough's failure to properly fund the referenced member's account, the borough must now pay interest on the delinquent contributions due.

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the borough review this situation with their solicitor and determine the contribution due to the member's account for the years 1988 through 2003 and deposit the amount due, with interest. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Management 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
2002	\$ 15,361	\$ 4,185
2003	13,455	6,994
2004	None	22,265
2005	20,497	3,324
2006	13,211	8,594
2007	22,444	8,197

TULLYTOWN BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

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

The Honorable Dave Cutchineal	Mayor
Mr. Joseph Shellenberger	Council President
Mr. Andrew Warren	Borough Manager
Mr. William DePasquale	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.