

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2009



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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 Yardley 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 Yardley Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 91-3, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of each member's compensation.



The Honorable Mayor and Borough Council
Yardley Borough
Bucks County
Yardley, PA 19067

We have conducted a compliance audit of the Yardley Borough Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2009. 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 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Yardley 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 Yardley 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 – Untimely Deposit Of State Aid

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

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

February 2, 2011

JACK WAGNER
Auditor General

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Yardley Borough has complied with the prior audit recommendations concerning the following:

· Excess Municipal Contributions Paid To Terminating Member

Municipal officials and the former employee have agreed to a repayment schedule where the former employee will pay back the municipal contributions that the member was not entitled to. The former employee has been making payments per the schedule and the Department will continue to monitor the situation during future audits of the plan;

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Municipal officials reimbursed \$3,150 to the Commonwealth for the overpayment of state aid;

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

Municipal officials withdrew the excess municipal contributions in the amount of \$2,606; and

· Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

Municipal officials reimbursed \$177 to the Commonwealth for the overpayment of state aid.

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Untimely Deposit Of State Aid

Condition: The borough did not deposit its 2008, 2009 and 2010 state aid allocations into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2008, 2009 and 2010 state aid allocations on September 25, 2008, September 23, 2009, and September 26, 2010, respectively, but did not deposit \$2,569, \$2,482 and \$2,563 into its nonuniformed pension plan until February 20, 2009, December 22, 2009, and November 24, 2010, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The municipality failed to establish adequate internal control procedures to ensure the timely deposit of state aid.

Effect: Although the state aid allocations were eventually deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the nonuniformed pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205. 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 municipal officials establish and implement adequate internal control procedures to ensure the timely deposit of state aid.

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

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: In 2008, the borough allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

State aid allocation	\$ 2,569
Less: Actual municipal pension costs	<u>(2,446)</u>
Excess state aid	<u>\$ 123</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 plan 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.

Cause: Plan officials were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution 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. The borough does have the option to allocate the excess state aid to its defined benefit police pension plan. If this option is not selected, the overpayment of state aid in 2008 in the total amount of \$123, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that municipal officials either allocate the \$123 of excess state aid to their defined benefit police pension plan or return it 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan with the pension plan’s annual defined contribution pension costs.

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

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 8,076	None
2005	2,960	\$ 5,527
2006	1,168	2,927
2007	2,344	None
2008	2,569	None
2009	2,482	None

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Yardley Borough Nonuniformed Pension Plan
Bucks County
56 South Main Street
Yardley, PA 19067

The Honorable Matthew Sinberg	Mayor
Mr. Joseph Hunter	Council President
Mr. William Winslade	Borough Manager

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.