



**YARDLEY BOROUGH NONUNIFORMED
PENSION PLAN**

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



YARDLEY BOROUGH NONUNIFORMED PENSION PLAN

BUCKS COUNTY

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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.





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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

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, 2010, 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 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. 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 transfers were properly authorized, accurate, timely and properly recorded.

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 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 objectives.

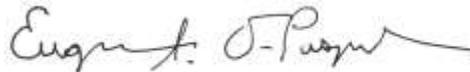
The results of our tests indicated that, in all significant respects, the Yardley Borough Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation -
Allocation Of State Aid In Excess Of Entitlement

Finding No. 2 – Failure To Deposit The Full Amount Of State Aid Into An
Eligible Pension Plan

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



March 27, 2013

EUGENE A. DEPASQUALE
Auditor General



YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Untimely Deposit Of State Aid

Municipal officials deposited the interest that was due to the plan for the untimely deposit of state aid.

Partial Compliance With Prior Audit Recommendation

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

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials allocated \$125 of its 2008 state aid allocation to the borough's defined benefit police pension plan; however, plan officials failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the pension plan's defined contribution pension costs in 2010, as further discussed in the Findings and Recommendations section of this report.

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Allocation Of State
Aid In Excess Of Entitlement

Condition: As disclosed in the prior audit report, in 2008, the borough allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs. During the current audit period, municipal officials allocated \$125 of its 2008 state aid allocation to the borough’s defined benefit police pension plan; however, plan officials failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the pension plan’s defined contribution pension costs in 2010, as illustrated below:

State aid allocation	\$ 2,563
Less: Actual municipal pension costs	<u>(2,395)</u>
Excess state aid	<u>\$ 168</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 failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

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 pension plan. If this option is not selected, \$168 must be returned to the Commonwealth for redistribution.

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that municipal officials either allocate \$168 to the borough's 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.

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

Finding No. 2 – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

Condition: The municipality did not deposit the full amount of its 2011 state aid allocation into an eligible pension plan. The municipality received its 2011 state aid allocation in the amount of \$27,982; however, only state aid totaling \$22,875 was deposited into its pension plans.

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: Plan officials failed to establish adequate internal control procedures to ensure the timely deposit of the entire state aid allocation in accordance with Act 205 requirements.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased. In addition, there was a funding deficiency of \$141 in the nonuniformed pension plan due, in part, to the borough's failure to deposit the entire amount of its 2011 state aid allocation.

YARDLEY BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the municipality deposit the borough's remaining state aid allocation of \$5,107, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into its pension plans as follows: \$141, plus applicable interest, should be deposited into the nonuniformed pension plan to satisfy the 2011 funding deficiency and the remainder, plus applicable interest, should be deposited into the police pension plan. A copy of the interest calculations must be maintained by the borough for examination during our next audit of the plans.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited into an eligible pension plan in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with 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
2006	\$ 1,168	\$ 2,927
2007	2,344	None
2008	2,569	None
2009	2,482	None
2010	2,563	None
2011	2,795	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. John Boyle	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.