



**JERMYN BOROUGH GENERAL EMPLOYEES
PENSION PLAN**

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2011 TO DECEMBER 31, 2013

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Jermyn Borough
Lackawanna County
Jermyn, PA 18433

We have conducted a compliance audit of the Jermyn Borough General Employees Pension Plan for the period January 1, 2011 to December 31, 2013. 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 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 the terms of the contractual agreement with the Pennsylvania State Association of Boroughs are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

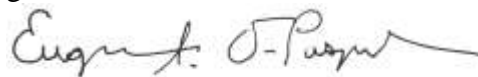
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Jermyn Borough General Employees Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Jermyn Borough General Employees 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 – Allocation Of State Aid In Excess Of Entitlement

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The Plan

The contents of this report were discussed with officials of Jermyn Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



EUGENE A. DEPASQUALE
Auditor General

June 23, 2014

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Allocation Of State Aid In Excess Of Entitlement.....	2
Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan	3
Summary of Deposited State Aid and Employer Contributions.....	5
Report Distribution List	6

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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Jermyn Borough General Employees 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 Jermyn Borough General Employees Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1 of 1996, as amended. The plan was established January 1, 1996. Active members are required to contribute 8 percent of compensation to the plan. The municipality is required to contribute 8 percent of each member's compensation per year. As of December 31, 2013, the plan had 2 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

JERMYN BOROUGH GENERAL EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2012, the borough allocated state aid to the pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

State aid allocation	\$ 7,834
Less: Actual municipal pension costs	<u>(5,215)</u>
Excess state aid	<u>\$ 2,619</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 received in one year to offset pension costs in other years; however, the borough does have the option to allocate the excess state aid to its defined benefit police pension plan.

Recommendation: We recommend that municipal officials allocate the \$2,619 of excess state aid to the borough’s defined benefit police pension plan.

In addition, we recommend that in the future, plan officials reconcile the amount of state aid allocated to the pension plan and municipal contributions made to the pension plan with the pension plan’s actual defined contribution pension costs.

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

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

JERMYN BOROUGH GENERAL EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to the pension plan in excess of contributions required to fund the plan in the years 2012 and 2013, as illustrated below:

	<u>2012</u>	<u>2013</u>	<u>Total</u>
Actual municipal contributions made	\$ 4,163	\$ 7,041	\$ 11,204
Municipal contributions required to fund plan after state aid allocation	-	(6,971)	(6,971)
Excess municipal contributions	\$ 4,163	\$ 70	\$ 4,233

Criteria: Section 3.01 of the plan’s governing document states, in part:

The employer shall make contributions to the plan which, together with forfeitures, shall be in an amount equal to 8%.

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 members’ accounts in excess of the defined contribution percentage rate contained in the plan’s governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan’s governing document.

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 members’ accounts at this time.

JERMYN BOROUGH GENERAL EMPLOYEES PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the borough, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the borough.

We also recommend that in the future, plan officials reconcile the amount of state aid allocated to the 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.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

JERMYN BOROUGH GENERAL EMPLOYEES PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 7,230	\$ 451
2009	7,681	None
2010	7,060	804
2011	7,102	None
2012	7,834	4,163
2013	None	7,041

JERMYN BOROUGH GENERAL EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Jermyn Borough General Employees Pension Plan
Lackawanna County
440 Jefferson Avenue
Jermyn, PA 18433

The Honorable Bruce Smallacombe	Mayor
Ms. Katie Hosie	Council President
Ms. Deborah Morcom	Secretary/Treasurer

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