

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement	6
Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid	7
Potential Withhold of State Aid.....	9
Supplementary Information	10
Report Distribution List	11

ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System

BACKGROUND

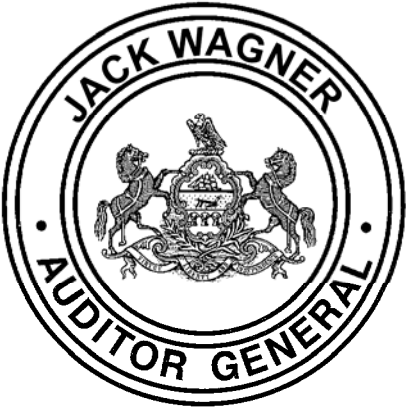
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Adamstown 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Adamstown Borough Nonuniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 342, adopted pursuant to Act 15. 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
Adamstown Borough
Lancaster County
Adamstown, PA 19501

We have conducted a compliance audit of the Adamstown 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 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. The Adamstown Borough Nonuniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Adamstown 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 Adamstown 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 –
Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – Partial Compliance With Prior Audit Recommendation –
Incorrect Data On Certification Form AG 385 Resulting In
An Overpayment Of State Aid

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

March 28, 2011

JACK WAGNER
Auditor General

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

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

Municipal officials decided to leave the excess contributions made in the prior audit period in the members' accounts. In addition, the borough did not make excess municipal contributions during the current audit period.

Partial Compliance With Prior Audit Recommendations

Adamstown Borough has partially complied with the prior audit recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current period, the municipality reimbursed \$1,719 to the Commonwealth for the excess state aid received in 2005 and 2006; 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 the year 2008, as further discussed in the Findings and Recommendations section of this report; and

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

During the current audit period, the municipality reimbursed \$1,234 to the Commonwealth for the overpayment of state aid received in 2007; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2009, as further discussed in the Findings and Recommendations section of this report.

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

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

Condition: During the current audit period, municipal officials reimbursed \$1,719 to the Commonwealth for the excess state aid received in 2005 and 2006; 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 the year 2008, as illustrated below:

State aid allocation	\$ 10,128
Actual municipal pension costs	<u>(7,898)</u>
Excess state aid	<u><u>\$ 2,230</u></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 plans 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 borough's state aid allocation with the plan's actual defined contribution pension costs and reimburse the difference to the Commonwealth.

Effect: It is this department's opinion that because 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. Consequently, the overpayment of state aid in the year 2008, in the total amount of \$2,230, must be returned to the Commonwealth for redistribution.

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality return the \$2,230 of excess state aid received in the year 2008 to the Commonwealth from the borough's general fund. 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 evidence of payment.

Furthermore, we recommend that plan officials reconcile the amount of state aid and municipal contributions allocated to the pension plan with the plan's annual defined contribution pension costs. If there is an overpayment of state aid, it should then be reimbursed to the Commonwealth.

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

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: During the current audit period, the municipality reimbursed \$1,234 to the Commonwealth for the overpayment of state aid received in 2007; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2009.

The borough certified 1 ineligible nonuniformed employee (1 unit) and overstated payroll by \$31,875 in 2009 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Because the borough’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocation, as identified below:

<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
7.0%	\$ 31,875	\$ 2,231

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the nonuniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$2,231, be returned 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 pension 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.

We also recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 2 contained in this audit report cite a total overpayment of state aid to the borough in the amount of \$4,461. Conditions of repeat findings of this nature may lead to a total withholding of state aid in the future unless those findings are corrected. A check in this amount with interest, at a rate earned by the pension 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.

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 7,911	\$ 77
2005	7,908	584
2006	7,779	24
2007	9,038	1,210
2008	7,898	None
2009	11,532	565
2010	12,682	1,823

ADAMSTOWN BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Adamstown Borough Nonuniformed Pension Plan
Lancaster County
P.O. Box 546
Adamstown, PA 19501

The Honorable David M. Buckwalter	Mayor
Mr. Dean Johnson	Council President
Ms. Carolyn Friesema	Borough Manager
Ms. Mary Burkholder	Secretary
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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.