

**APOLLO BOROUGH NONUNIFORMED PENSION PLAN**

**ARMSTRONG COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2009**





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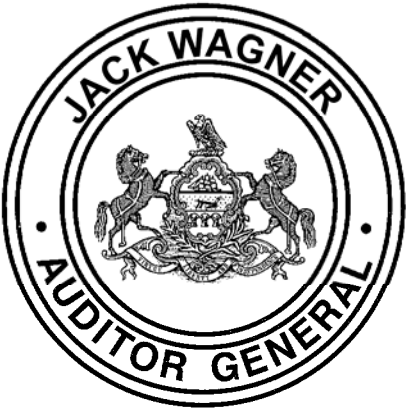
## BACKGROUND

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 Apollo 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 Apollo Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 05-2007 and 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 12 percent of the secretary's annual salary and \$90 per week for each employee covered under the collective bargaining agreement.





The Honorable Mayor and Borough Council  
Apollo Borough  
Armstrong County  
Apollo, PA 15613

We have conducted a compliance audit of the Apollo Borough Nonuniformed Pension Plan for the period January 1, 2007, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 borough has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Apollo 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 Apollo 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 finding further discussed later in this report:

Finding – Failure To Properly Fund Member Accounts

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

April 23, 2010

JACK WAGNER  
Auditor General

APOLLO BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- Failure To Fully Fund Members Accounts

The borough deposited the contributions due to the members' accounts; and

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

The borough reimbursed \$4,793 to the Commonwealth for the overpayment of state aid.

APOLLO BOROUGH NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Member Accounts

Condition: The borough did not properly fund the accounts of 3 members in 2008 and 2009, as illustrated below:

<u>2008 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due/(Excess)</u>
1	\$ 4,680	\$ 4,680	\$ -
2	2,144	5,905	(3,761)
3	1,573	-	1,573
Total			<u>\$ (2,188)</u>

<u>2009 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due/(Excess)</u>
1	\$ 4,680	\$ 5,070	\$ (390)
2	-	6,515	(6,515)
3	3,327	-	3,327
Total			<u>\$ (3,578)</u>

Criteria: Section 2 of Resolution No. 05 of 2007 states:

The Apollo Borough Non-Uniform Pension Ordinance and Program shall be amended retroactive to January 1, 2007, to include the Borough Secretary’s defined contribution which shall be 12% of the Borough Secretary’s annual salary.

Furthermore, Article XX of the agreement between the Borough of Apollo and the General Teamsters Local Union No. 538 states in part:

Effective January 1, 2002, the Employer shall contribute \$90 per week for each employee covered by this Agreement...

Cause: Plan officials failed to establish adequate internal control procedures to ensure that eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document and the collective bargaining agreement.

APOLLO BOROUGH NONUNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The failure to fully plan member's accounts could result in the plan members being denied benefits to which they are entitled in accordance with the plan's governing document and collective bargaining agreement.

In addition, by making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document and collective bargaining agreement.

Furthermore, the borough must now pay interest on the contributions due to the member's account that was not properly funded.

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.

Furthermore, we recommend that the borough review the plan member's account that was not properly funded to ensure that the required contributions are made for the years 2008 and 2009, with interest.

We also recommend that the borough establish adequate internal control procedures to ensure that all plan member accounts are properly funded in the future.

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

APOLLO BOROUGH NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF STATE AID  
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 9,360	None
2005	9,360	None
2006	4,773	\$ 390
2007	7,470	390
2008	5,905	4,680
2009	6,515	5,070

APOLLO BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Apollo Borough Nonuniformed Pension Plan  
Armstrong County  
P.O. Box 306  
Apollo, PA 15613

The Honorable Richard Dixon	Mayor
Mr. John C. Ameno, Jr.	Council President
Ms. Lori Weig-Tamasy	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](http://www.auditorgen.state.pa.us).