

**ARCHBALD BOROUGH NONUNIFORMED PENSION PLAN**

**LACKAWANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





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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 Archbald 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 Archbald Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a plan document dated January 1, 1992, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its nonuniformed employees. Active members are required to contribute 5 percent of compensation to the plan. The municipality is required to contribute 5 percent of each member's compensation.





The Honorable Mayor and Borough Council  
Archbald Borough  
Lackawanna County  
Archbald, PA 18403

We have conducted a compliance audit of the Archbald Borough Nonuniformed Pension Plan for the period January 1, 2006, to December 31, 2008. 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. Archbald Borough contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which are available at the borough's offices. Those 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 Archbald 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 Archbald 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 – Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

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

July 17, 2009

JACK WAGNER  
Auditor General

ARCHBALD BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

· Receipt Of State Aid In Excess Of Entitlement

The borough reimbursed \$1,119 of excess state aid received in the year 2003 to the Commonwealth, plus applicable interest, from its general fund thereby electing not to withdraw excess municipal contributions maintained in the members' accounts; and

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

The borough reimbursed the total excess state aid, in the amount of \$5,556, to the Commonwealth, plus applicable interest, from its general fund thereby electing not to withdraw excess municipal contributions maintained in the members' accounts.

Partial Compliance With Prior Audit Recommendation

· Allocation Of State Aid In Excess Of Entitlement

The borough deposited \$6,221 into its defined benefit police pension plan, plus applicable interest, from its general fund thereby electing not to withdraw excess municipal contributions maintained in the members' accounts. However, in 2008, the borough allocated state aid to the nonuniformed pension plan in excess of the plan's defined contribution pension costs as further discussed in the Findings and Recommendations section of this report.

ARCHBALD 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 2004, 2005 and 2006, 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, the borough deposited \$6,221 into its defined benefit police pension plan, plus applicable interest, from its general fund thereby electing not to withdraw excess municipal contributions maintained in the members’ accounts. However, 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	\$ 18,518
Less: Actual municipal pension costs	(14,386)
	<hr/>
Excess state aid	<u>\$ 4,132</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 the annual state aid allocation was reconciled 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 pension plan. If this option is not selected, the overpayment of state aid in 2008, in the total amount of \$4,132, must be returned to the Commonwealth for redistribution from the nonuniformed pension plan.

ARCHBALD BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that municipal officials either allocate the \$4,132 of excess state aid to their defined benefit pension plan or return it to the Commonwealth from the nonuniformed pension plan. 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, 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 and municipal contributions made to the pension plan with the pension plan’s defined contribution pension costs.

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

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

Condition: The borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2007</u>	<u>2008</u>	<u>Total</u>
Actual municipal pension costs	\$ 13,217	\$ 14,386	\$ 27,603
State aid allocated	<u>(10,023)</u>	<u>(18,518)</u>	<u>(28,541)</u>
Municipal contributions required to fund plan	<u>\$ 3,194</u>	<u>\$ (4,132)</u>	<u>\$ (938)</u>
Actual municipal contributions made	\$ 5,334	\$ 2,354	\$ 7,688
Municipal contributions required to fund plan	<u>(3,194)</u>	<u>-</u>	<u>( 3,194)</u>
Excess municipal contributions	<u>\$ 2,140</u>	<u>\$ 2,354</u>	<u>\$ 4,494</u>

ARCHBALD BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: A resolution dated September 19, 2001 states, in part:

...the Borough of Archbald full-time Non-uniform employees shall contribute 5% of their wages toward the Retirement Plan and the employer will match the 5% for full-time employees.

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.

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 nonuniformed 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.

ARCHBALD BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 12,485	None
2004	16,780	None
2005	15,413	None
2006	15,115	None
2007	10,023	\$ 5,334
2008	18,518	2,354





ARCHBALD BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Archbald Borough Nonuniformed Pension Plan  
Lackawanna County  
400 Church Street  
Archbald, PA 18403

The Honorable Edward F. Fairbrother	Mayor
Mr. John R. Altier	Council President
Ms. Colleen J. Smith	Administrative Secretary

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).