

**CANTON BOROUGH NONUNIFORMED PENSION PLAN**

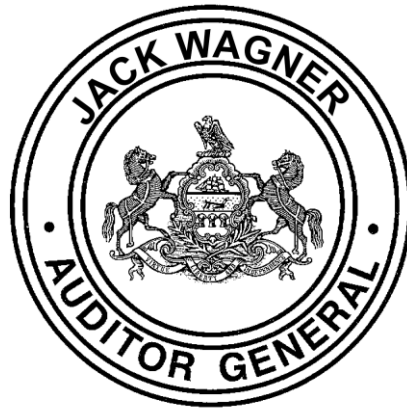
**BRADFORD COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**





**CANTON BOROUGH NONUNIFORMED PENSION PLAN**

**BRADFORD COUNTY**

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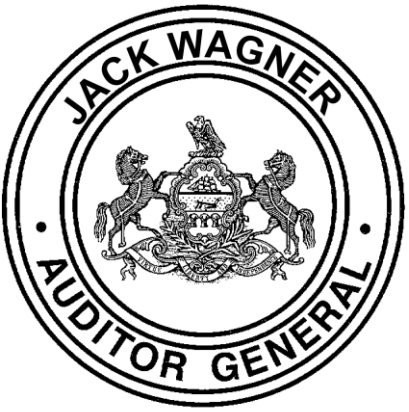
## **BACKGROUND**

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 Canton 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 Canton Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 388, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 15.25 percent of each member's compensation.





The Honorable Mayor and Borough Council  
Canton Borough  
Bradford County  
Canton, PA 17724

We have conducted a compliance audit of the Canton Borough Nonuniformed Pension Plan for the period January 1, 2009, to December 31, 2011. 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Canton 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 Canton 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 – Noncompliance With Prior Audit Recommendation –  
Municipal Contributions Made In Excess Of Contributions  
Required To Fund The Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure  
To Properly Fund Members' 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 Canton Borough and, where appropriate, their responses have been included in the report.

June 14, 2012

JACK WAGNER  
Auditor General

CANTON BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Canton Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan
- Failure To Properly Fund Members' Accounts

CANTON BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Municipal Contributions  
Made In Excess Of Contributions Required To Fund The Plan

Condition: As disclosed in the prior audit report, the borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan. Section 4 of Ordinance No. 479 states, in part:

The municipality agrees to pay fifteen and a quarter (15.25%) percent of each eligible employee’s annual salary into the pension program.

The borough made municipal contributions in the amount of \$7,327 and allocated state aid in the amount of \$28,392 to the nonuniformed pension plan during the period January 1, 2000, to December 31, 2002. During that period, the borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in the amount of \$1,211, as illustrated below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
Actual municipal pension costs	\$ 11,721	\$ 11,738	\$ 11,049	\$ 34,508
State aid allocation	<u>(9,315)</u>	<u>(9,623)</u>	<u>(9,454)</u>	<u>(28,392)</u>
Municipal contributions required to fund plan	<u>\$ 2,406</u>	<u>\$ 2,115</u>	<u>\$ 1,595</u>	<u>\$ 6,116</u>
Actual municipal contributions made	\$ 2,847	\$ 2,460	\$ 2,020	\$ 7,327
Municipal contributions required to fund plan	<u>(2,406)</u>	<u>(2,115)</u>	<u>(1,595)</u>	<u>(6,116)</u>
Excess municipal contributions	<u>\$ 441</u>	<u>\$ 345</u>	<u>\$ 425</u>	<u>\$ 1,211</u>

Furthermore, in 2004 and 2005, the borough made municipal contributions in the amounts of \$2,020 and \$1,990, respectively, and allocated state aid in the amounts of \$13,554 and \$15,147, respectively, to the nonuniformed pension plan.

CANTON BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

During these years, the borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in the amount of \$3,172, as illustrated below:

	<u>2004</u>	<u>2005</u>
State aid allocation	\$ 13,554	\$ 15,147
Actual municipal pension costs	(14,392)	(14,417)
Excess state aid/(required municipal contributions)	\$ (838)	\$ 730
Actual municipal contributions	\$ 2,020	\$ 1,990
Required municipal contributions	(838)	-
Excess municipal contributions	\$ 1,182	\$ 1,990

Consequently, the excess municipal contributions made during the period 2000 through 2005 totaled \$4,383.

On July 16, 2007, the excess state aid received in the year 2005, in the amount of \$730, was transferred to the borough’s police pension plan.

Criteria: 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.

Furthermore, during the prior audit period, the borough adopted Ordinance No. 534, which states, in part:

The excess 2000 through 2005 excess municipal contributions in the amount of \$4,383 be withdrawn from the members’ accounts and reimbursed to the Borough.

Cause: The borough failed to establish adequate internal control procedures to follow up with the plan’s custodian to ensure the excess municipal contributions were reimbursed to the borough in compliance with Ordinance No. 534.

CANTON BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The borough 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 excess municipal contributions maintained in the members’ accounts at this time.

Recommendation: We again recommend that the borough withdraw the excess municipal contributions from the members’ accounts and reimburse the borough in accordance with Ordinance No. 534.

Management’s Response: Municipal officials agreed with the finding without exception. The borough is in the process of contacting the plan’s custodian to withdraw the excess municipal contributions from the members’ accounts and reimburse the borough.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts

Condition: As disclosed in the prior audit report, the borough did not fully fund the accounts of 3 members in 2006, as illustrated below:

<u>2006 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 4,956	\$ 4,488	\$ 468
2	3,086	2,861	225
3	4,503	4,440	63
		Total	<u>\$ 756</u>

CANTON BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: The plan's governing document sets the municipal contribution rate at 15.25 percent of salary.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation. In addition, borough officials used base pay instead of W-2 compensation when calculating the municipal contributions due to the nonuniformed pension plan members.

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Due to borough's failure to properly fund the referenced members' accounts, the borough must now pay interest on the delinquent contributions.

Recommendation: We again recommend that the borough deposit the contributions due to the members' accounts for the year 2006, with interest. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Management's Response: Municipal officials agreed with the finding without exception. The borough calculated the amount due to each member and will be forwarding a check to be deposited into the members' accounts.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

CANTON BOROUGH NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF STATE AID  
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 11,789	None
2007	12,545	\$ 1,142
2008	13,687	855
2009	14,374	1,990
2010	11,673	1,960
2011	9,897	1,960



CANTON BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Canton Borough Nonuniformed Pension Plan  
Bradford County  
P.O. Box 174  
Canton, PA 17724

The Honorable John Vineski	Mayor
Mr. Ken Robertson	Council President
Ms. Amy C. Seeley	Borough Administrator

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).