

CHESTER HILL BOROUGH POLICE PENSION PLAN

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004, TO DECEMBER 31, 2006



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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Finding	5
Finding and Recommendation:	
Finding – Return Of Unused Monies To The Commonwealth	6
Supplementary Information	7
Report Distribution List	9

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, 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 Chester Hill Borough Police 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943, (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1, et seq.

The Chester Hill Borough Police Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 2000-314, adopted pursuant to Act 120. Effective October 3, 2003, the borough no longer employed a full-time police officer and a motion was made to disband the police force effective December 31, 2003. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, through discretionary purchases of insurance or annuity contracts.



The Honorable Mayor and Borough Council
Chester Hill Borough
Clearfield County
Philipsburg, PA 16866

We have conducted a compliance audit of the Chester Hill Borough Police Pension Plan for the period January 1, 2004, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding 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. Chester Hill 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.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Chester Hill Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough's compliance with those requirements. 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 Chester Hill Borough Police 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 – Return Of Unused Monies To The Commonwealth

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

September 12, 2007

JACK WAGNER
Auditor General

CHESTER HILL BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Chester Hill Borough has complied with the prior audit recommendation concerning the following:

- Incorrect Data Certified On Actuarial Valuation Report Resulting In Overpayments Of State Aid

The borough reimbursed \$2,594 to the Commonwealth for the overpayments of state aid received in 2002 and 2003.

CHESTER HILL BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Return Of Unused Monies To The Commonwealth

Condition: Chester Hill Borough has not employed a full-time paid police officer since October 3, 2003. The borough has purchased an annuity for the only former member of the plan eligible to receive a retirement benefit. Additionally, the borough has retained assets in the police pension plan through an unallocated insurance contract which had a balance of \$27,142 and a checking account which had a balance of \$5,748 as of December 31, 2006.

Criteria: Municipalities that received state aid allocations pursuant to Act 120, and which do not employ at least one full-time paid police officer, must return unused funds to the Commonwealth pursuant to the provisions of Act 120, at 72 P.S. 2263.3, which states, in part:

All moneys distributed under the terms hereof, that are not used for the purposes set forth herein within two years after receipt thereof by the treasurers of several cities, boroughs, towns and townships, shall be returned to the General Fund for distribution...

Cause: Plan officials were unaware that funds are due to the Commonwealth.

Effect: The borough is improperly retaining unneeded funds that should be returned to the Commonwealth for redistribution to eligible municipalities for reimbursement of eligible pension costs.

Recommendation: We recommend that if the borough does not intend on hiring a full-time paid police officer, borough officials, with the assistance of their solicitor, identify any outstanding liabilities that need to be satisfied from pension plan assets.

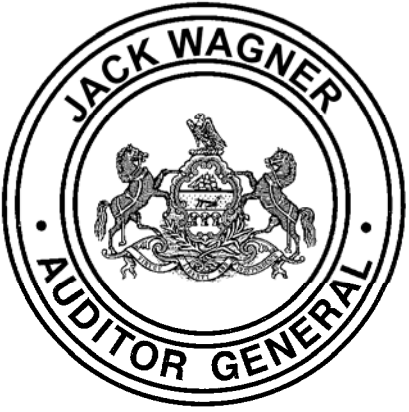
After accounting for any remaining liabilities and municipal contributions, the remaining police pension plan assets should be returned to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

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

CHESTER HILL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2001	\$ 2,337	None
2002	3,621	None
2003	3,659	None
2004	2,948	None
2005	None	None
2006	None	None



CHESTER HILL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Chester Hill Borough Police Pension Plan
Clearfield County
920 Walton Street
Philipsburg, PA 16866

The Honorable Michael Mann	Mayor
Mr. William Morgan	Council President
Ms. Sherrie Beals	Treasurer

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.