

**DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN**

**BLAIR COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**





**DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN**

**BLAIR COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**



## CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General .....	3
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement.....	6
Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan .....	7
Finding No. 3 – Failure To Fully Fund Members’ Accounts.....	8
Potential Withhold of State Aid.....	10
Supplementary Information .....	11
Report Distribution List .....	13

### 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 Duncansville 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 Duncansville Borough Nonuniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 12-02, effective October 1, 2009, adopted pursuant to Act 15. Active members are not required to contribute to the plan; however, active members may voluntarily contribute up to 15 percent of their compensation. The municipality is required to quarterly contribute \$250 per member.

Prior to the adoption of Ordinance No. 12-02, the plan was affected by the provisions of Ordinance No. 12-95-3, as amended. Active members were not required to contribute to the plan. The municipality previously maintained a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts.





The Honorable Mayor and Borough Council  
Duncansville Borough  
Blair County  
Duncansville, PA 16635

We have conducted a compliance audit of the Duncansville 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. Effective October 1, 2009, the Duncansville 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 Duncansville 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 Duncansville 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 – Receipt Of State Aid In Excess Of Entitlement

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

Finding No. 3 – Failure To Fully 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 Duncansville Borough and, where appropriate, their responses have been included in the report.

April 20, 2011

JACK WAGNER  
Auditor General

DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

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

During the current audit period, municipal officials established adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data; and

- Unauthorized Funding Mechanism

There were no further deposits made to the irrevocable burial trust fund. In addition, the beneficiary of the trust fund died on April 8, 2009.

DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Condition: The borough received state aid in excess of the nonuniformed pension plan’s pension costs in the year 2010, as illustrated below:

State aid allocation	\$ 9,084
Less: Actual municipal pension costs	<u>(6,120)</u>
Excess state aid	<u>\$ 2,964</u>

As of December 31, 2010, the excess state aid was held in the plan’s municipal reserve account with PMRS.

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: Although the borough accurately reported the plan’s discretionary benefits on the January 1, 2009, actuarial valuation report, when the plan converted to a cash balance plan with a flat dollar contribution requirement it resulted in the receipt of excess state aid.

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 2010, in the total amount of \$2,964, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$2,964 of excess state aid received in the year 2010 to the Commonwealth from the plan’s municipal reserve account held with PMRS. 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.

DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we recommend that in the future plan officials reconcile the amount of state aid allocated to the nonuniformed pension plan with the plan’s annual pension costs and reimburse any excess state aid received to the Commonwealth.

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 in the year 2010, as illustrated below:

Actual municipal pension costs	\$	6,120
State aid allocated		(9,084)
Municipal contributions required to fund plan	\$	-
Actual municipal contributions made	\$	3,120
Municipal contributions required to fund plan		-
Excess municipal contributions	\$	3,120

As of December 31, 2010, the excess municipal contributions were held in the plan’s municipal reserve account with PMRS.

Criteria: The Municipal Employee Pension Plan Agreement adopted by Ordinance No. 12-02 states, in part:

The Borough will contribute quarterly two hundred fifty dollars (\$250) to each member’s account.

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.

DUNCANVILLE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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: 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 municipal reserve account at this time.

Recommendation: We recommend that the borough transfer the \$3,120 excess municipal contributions from the plan’s municipal reserve account to the borough’s general fund. In addition, any interest income earned on the excess contributions held in the reserve account to the date of transfer should also be transferred to the general fund.

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 plan’s annual pension costs.

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

Finding No. 3 – Failure To Fully Fund Members’ Accounts

Condition: On May 5, 2009, the borough allocated \$818 of its 2008 state aid allocation to its discretionary nonuniformed pension plan. In addition, on September 29, 2009, the borough allocated \$5,198 of its 2009 state aid allocation to its discretionary nonuniformed pension plan. These allocations, totaling \$6,016, were deposited to the plan’s savings account. Effective October 1, 2009, the plan joined PMRS as a cash balance plan with a flat dollar contribution requirement. During 2010, all assets were transferred to PMRS and members’ accounts were established for each active member. However, the total amount of the 2008 and 2009 state aid allocated to the prior plan has not been used to fully fund the members’ accounts for those years, as illustrated below:

State aid allocated to plan	\$ 6,016
State aid deposited to members’ accounts	<u>(4,516)</u>
State aid due members’ accounts	<u>\$ 1,500</u>

As of December 31, 2010, the state aid due the members for the years 2008 and 2009 was held in the plan’s municipal reserve account with PMRS.

DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Prior to October 1, 2009, the borough maintained a nonuniformed pension fund to provide benefits for its eligible nonuniformed employees with no fixed or defined contribution amount or percentage specified in the plan document through the discretionary purchases of insurance or annuity contracts. Therefore, the total amount of state aid allocated to the plan for 2008 and 2009 should have been used to fund the accounts of eligible members.

Cause: Municipal officials failed to adopt adequate internal control procedures to ensure the full amount of state aid allocated to the plan for 2008 and 2009 was used to fund members' accounts.

Effect: The failure to properly fund members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document. Furthermore, 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 \$1,500 may not be retained in the plan's municipal reserve account with PMRS for use in future years.

Recommendation: We recommend that \$1,500, plus interest at a rate earned by the plan, be transferred from the plan's municipal reserve account with PMRS to the accounts of those plan members who were eligible to receive allocations during 2008 and 2009.

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

DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

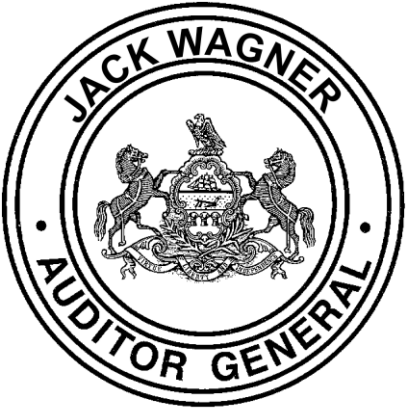
Finding No. 1 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$2,964. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the 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.



DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF STATE AID  
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 4,684	None
2006	4,639	None
2007	4,356	None
2008	6,006	None
2009	5,198	None
2010	9,084	\$ 3,120



DUNCANSVILLE BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Duncansville Borough Nonuniformed Pension Plan  
Blair County  
1146 Third Avenue  
Duncansville, PA 16635

The Honorable Kenneth L. Davis II	Mayor
Mr. Lloyd A. Forshey, Jr.	Council President
Ms. R. Charlene Davis	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](http://www.auditorgen.state.pa.us).