

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN

MONTGOMERY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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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 East Greenville 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.

In 2006 and 2007, the East Greenville Borough Nonuniformed Pension Plan was a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 03-06. Active members were not required to contribute to the plan. The municipality was required to contribute 5 percent of each member's yearly wages.

Beginning on January 1, 2008, the East Greenville Borough Nonuniformed Pension Plan became a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 07-05, adopted pursuant to Act 15.



The Honorable Mayor and Borough Council
East Greenville Borough
Montgomery County
East Greenville, PA 18041

We have conducted a compliance audit of the East Greenville 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. Effective January 1, 2008, the East Greenville 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 an internal control structure to provide reasonable assurance that the East Greenville Borough Nonuniformed 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 East Greenville 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 – Failure To Properly Fund Member Accounts
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 3 – Failure To Deposit The Full Amount Of State Aid Into The Pension 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 East Greenville Borough and, where appropriate, their responses have been included in the report.

April 22, 2009

JACK WAGNER
Auditor General

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

East Greenville Borough has complied with the prior audit recommendations concerning the following:

· Failure To Prepare Financial Statements

Financial statements are now prepared for the pension plan;

· Receipt Of State Aid In Excess Of Entitlement

The borough reimbursed \$2,260 to the Commonwealth for the overpayment of state aid;

· Restated Plan Document Not Adopted By Resolution

In 2008, plan officials adopted Ordinance No. 07-05, which adopted the plan agreement with PMRS; and

· Unauthorized Funding Mechanism

The borough joined PMRS which is an eligible funding mechanism for the pension plan.

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Properly Fund Member Accounts

Condition: The borough did not fully fund the accounts of 5 members in 2006, 2 members in 2007, and 5 members in 2008 in the amounts of \$317, \$2,874 and \$589, respectively, as illustrated below:

<u>2006 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,874	\$ 1,774	\$ 100
2	2,212	2,070	142
3	1,988	1,950	38
4	2,206	2,193	13
5	1,477	1,453	24
		Total	<u>\$ 317</u>

<u>2007 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,955	\$ -	\$ 1,955
2	919	-	919
		Total	<u>\$ 2,874</u>

<u>2008 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,119	\$ 2,051	\$ 68
2	1,601	1,492	109
3	2,444	2,207	237
4	2,085	2,078	7
5	1,770	1,602	168
		Total	<u>\$ 589</u>

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: During the audit period, the municipality was required to contribute 5 percent of each member's yearly wages.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that each member's account was properly funded.

Effect: Due to the borough's failure to properly fund the accounts of several plan members, the borough must now pay interest on the delinquent contributions.

Recommendation: We recommend that the borough deposit the contributions due to the individual member accounts for the years 2006, 2007 and 2008, with interest. A copy of the interest calculations should 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.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify 2 eligible nonuniformed employees (2 units) and understated payroll by \$38,351 in 2008 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. Since East Greenville Borough participates in a regional police pension plan, the borough's state aid allocation for its nonuniformed pension plan is separately calculated by the Department of the Auditor General Comptroller's Office using an alternate method, taking into account the municipality's pension costs and unit value as well as the municipality's percentage of the regional police pension plan's pension costs and unit value. The borough's state aid allocation for 2008 was \$9,054, which was based on the plans' pension costs. Based on the corrected information, the borough was entitled to an allocation of \$10,972, based on the plans' adjusted pension costs. Therefore, the borough received a \$1,918 underpayment of state aid in 2008.

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification errors, the full amount of the 2008 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension plan data.

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

Finding No. 3 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: The municipality did not deposit the full amount of its 2007 state aid allocation into the pension plan. The municipality received its 2007 state aid allocation in the amount of \$9,757 on September 24, 2007; however, only \$7,704 was deposited into the pension plan. Furthermore, the deposit was not made until June 11, 2008, which was not a timely deposit in accordance with Act 205 requirements.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure the full amount of the 2007 state aid allocation was deposited timely into the pension plan in accordance with Act 205 requirements.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Although a portion of the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan.

Recommendation: We recommend that the municipality deposit the balance of the 2007 state aid allocation, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into the pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid is deposited into the nonuniformed pension plan within 30 days of receipt by the municipal treasurer.

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

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 7,396	\$ 453
2004	8,165	None
2005	8,165	1,379
2006	None	9,441
2007	7,704	None
2008	9,054	375

EAST GREENVILLE BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

East Greenville Borough Nonuniformed Pension Plan
Montgomery County
206 Main Street
East Greenville, PA 18041

The Honorable Ryan J. Sloyer	Mayor
Mr. Douglas Bricker	Council President
Mr. James Fry	Borough Manager
Mr. Benjamin F. Mader	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.