

HOUTZDALE BOROUGH NONUNIFORMED PENSION PLAN

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



HOUTZDALE BOROUGH NONUNIFORMED PENSION PLAN

CLEARFIELD 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
Finding and Recommendation:	
Finding – Failure To Fund Member’s Account.....	5
Supplementary Information	6
Report Distribution List	7

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 Houtzdale 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 Houtzdale Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2007-1, as amended, and a money purchase pension plan agreement dated September 9, 2002. Active members are not required to contribute to the plan. The municipality was required to annually contribute \$3,200 per full-time employee for the years 2008 and 2009, and \$2,650 for the year 2010.



The Honorable Mayor and Borough Council
Houtzdale Borough
Clearfield County
Houtzdale, PA 16651

We have conducted a compliance audit of the Houtzdale 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 this objective.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Houtzdale 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Houtzdale 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 finding further discussed later in this report:

Finding – Failure To Fund Member's Account

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

June 10, 2011

JACK WAGNER
Auditor General

HOUTZDALE BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Fund Member’s Account

Condition: In 2010, the borough did not fund the account of a plan member who was hired on November 11, 2008, and became a plan member on May 31, 2009.

Criteria: The plan’s governing document, Ordinance 2007-1, as amended, sets the annual municipal contribution rate for 2010 at \$2,650 per full-time employee.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure that the member’s account was properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The plan member is not receiving the contributions due to their account in accordance with the plan’s governing document.

Due to borough’s failure to properly fund the plan member’s account, the borough must now pay interest on the delinquent contribution due.

Recommendation: We recommend that the borough deposit the contribution due to the plan member’s account for the year 2010, with interest. 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 establish and implement adequate internal control procedures to ensure that the accounts of all plan members are properly funded in accordance with the plan’s governing document.

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

HOUTZDALE BOROUGH NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	None	\$ 1,350
2006	\$ 500	2,342
2007	600	None
2008	3,186	14
2009	3,128	72
2010	None	None

HOUTZDALE BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Houtzdale Borough Nonuniformed Pension Plan
Clearfield County
704 Brisbin Street
Houtzdale, PA 16651

The Honorable Paul Clancy	Acting Mayor/Council President
Mr. James Bumbarger	Vice President of Council
Ms. Kathy Hamm	Secretary/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.