

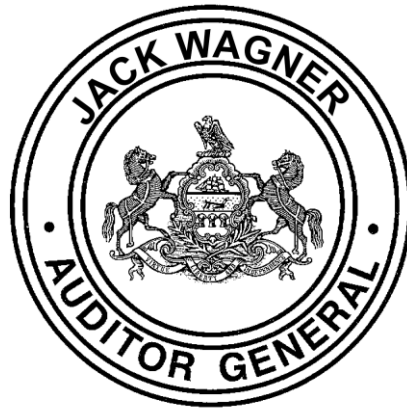
MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN

LACKAWANNA COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010



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ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System

BACKGROUND

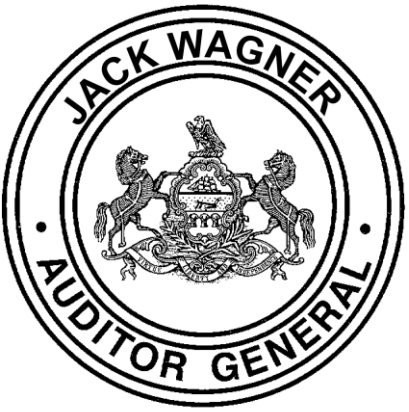
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Mayfield 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 Mayfield Borough Nonuniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 4-01, as amended, adopted pursuant to Act 15. Active members are not required to contribute to the plan. The municipality is required to quarterly contribute \$500 per member.



The Honorable Mayor and Borough Council
Mayfield Borough
Lackawanna County
Mayfield, PA 18433

We have conducted a compliance audit of the Mayfield Borough Nonuniformed Pension Plan for the period January 1, 2009, 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. The Mayfield 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 Mayfield 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 Mayfield 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 Comply With Act 205 Administrative Requirements
- Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

We also noted a matter that has been included in the following observation further discussed later in this report:

- Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

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

November 22, 2011

JACK WAGNER
Auditor General

MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Mayfield Borough has complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

The borough reimbursed \$156 of excess state aid received in the years 2006 and 2007 to the Commonwealth, plus applicable interest. In addition, during the current audit period, the borough has amended the plan's governing document, on an annual basis, to specify the plan's defined contribution rate as a specified flat dollar amount.

Noncompliance With Prior Audit Recommendations

Mayfield 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 Comply With Act 205 Administrative Requirements

MAYFIELD 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 for the years 2006 and 2007. Furthermore, during the current audit period, the borough again made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan for the year 2009, as illustrated below:

	<u>2006</u>	<u>2007</u>	<u>2009</u>	<u>Total</u>
Actual municipal pension costs	\$ 2,040	\$ 2,040	\$ 4,040	\$ 8,120
State aid allocated	<u>(2,040)</u>	<u>(2,040)</u>	<u>(2,164)</u>	<u>(6,244)</u>
Municipal contributions required to fund plan	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,876</u>	<u>\$ 1,876</u>
Actual municipal contributions made	\$ 2,040	\$ 2,040	\$ 4,040	\$ 8,120
Municipal contributions required to fund plan	<u>-</u>	<u>-</u>	<u>(1,876)</u>	<u>(1,876)</u>
Excess municipal contributions	<u>\$ 2,040</u>	<u>\$ 2,040</u>	<u>\$ 2,164</u>	<u>\$ 6,244</u>

Criteria: Ordinance No. 4-01, as amended, at Section 13 of the pension plan agreement states, in part:

The Borough will contribute quarterly five hundred dollars (\$500) of each member's compensation to the System.

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.

MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: The borough failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: In the years 2006 and 2007, the municipality allocated funds to the members' accounts in excess of the defined contribution rate contained in the plan's governing document. By making excess municipal contributions, plan members will receive additional benefits beyond those outlined in the plan's governing document.

In the year 2009, as a result of the municipality making contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan, the unallocated reserve fund in the amount of (\$26) at January 1, 2009, increased to a reserve fund in the amount of \$2,221 at December 31, 2010, as illustrated by the following:

	<u>2009</u>	<u>2010</u>
Unallocated reserve fund at January 1	\$ (26)	\$ 2,141
Excess municipal contributions	2,164	-
Interest earned on reserve funds	3	120
Administrative expense	-	(40)
Unallocated reserve fund at December 31	\$ 2,141	\$ 2,221

The unallocated reserve fund maintained by the nonuniformed pension plan resulted because no reduction of municipal contributions occurred to reconcile the amount of state aid allocated with the plan's defined contribution pension costs for the year 2009. It is appropriate to use state aid to reimburse a municipality for contributions made to the pension plan to fund the pension costs in that same fiscal year, as long as annual pension costs for that pension plan are equal to or greater than the state aid allocated to that pension plan.

MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 municipal contributions maintained in the members' accounts as well as liquidating the unallocated reserve fund at this time.

Recommendation: We again recommend that the borough review the audit finding with its solicitor and PMRS to determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the borough.

In addition, we recommend that the borough liquidate the unallocated reserve fund maintained by the nonuniformed pension plan by transferring the assets which represent nonstate aid funds, to the borough's general fund. Furthermore, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

We also recommend that plan officials reconcile the amount of state aid allocated to the pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials indicated they will apply the unallocated reserve funds to satisfy future minimum municipal obligations of the plan.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Comply With Act 205 Administrative Requirements

Condition: As disclosed in the prior audit report, municipal officials appointed the mayor as the chief administrative officer (CAO) for the pension plan by adopting Resolution No. 104, dated April 25, 1985. However, during both the prior and current audit periods, the plan's actuarial valuation reports, Certification Forms AG 385, and the minimum municipal obligation determinations were signed by borough officials other than the mayor.

Criteria: Section 102 of Act 205 defines the CAO as "The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person."

MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions.

Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

Cause: The borough failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Plan documents were not properly certified in accordance with Act 205 requirements.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we again recommend that the CAO who is formally appointed by ordinance, resolution or motion recorded in the minutes of a council meeting be the official who certifies compliance with Act 205 administrative requirements.

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

MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Receipt Of State Aid In Excess Of Entitlement

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

State aid allocation	\$ 3,738
Actual municipal pension costs	<u>(2,040)</u>
Excess state aid	<u>\$ 1,698</u>

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: Plan officials failed to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs.

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 received in the year 2010, in the total amount of \$1,698, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality reimburse the \$1,698 of excess state aid received in the year 2010 to the Commonwealth. 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.

MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, we recommend that 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 defined contribution pension costs and reimburse any excess state aid back to the Commonwealth.

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

MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 2,040	None
2006	2,040	\$ 2,040
2007	2,040	2,040
2008	2,040	None
2009	2,164	4,040
2010	3,738	None

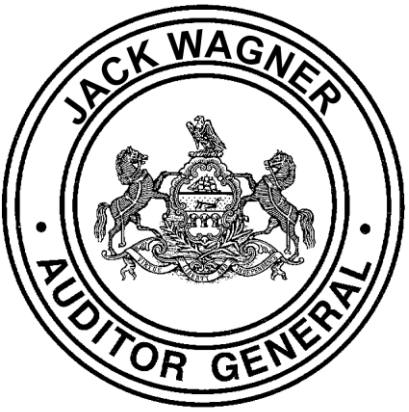
MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
OBSERVATION

Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

Plan officials have not prepared management guidelines which describe the duties and responsibilities of municipal and plan officials in the operation of the nonuniformed pension plan.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected and delayed and investment opportunities may be lost.

The borough should consider preparing a written operations manual which describes, in detail, the duties of municipal and plan officials responsible for the operation of the pension plan. This manual should be kept on file with other important plan documents.



MAYFIELD BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Mayfield Borough Nonuniformed Pension Plan
Lackawanna County
739 Penn Avenue
Mayfield, PA 18433

The Honorable Alexander J. Chelik	Mayor
Mr. Thomas J. Gallagher	Council President
Ms. Phyllis A. Jaskowiec	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.auditogen.state.pa.us.