

MILESBURG BOROUGH NONUNIFORMED PENSION PLAN

CENTRE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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ABBREVIATION

PERC - Public Employee Retirement Commission

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 Milesburg 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 Milesburg Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 270, as amended. Active members are not required to contribute to the plan. The municipality is required to annually contribute \$2,500 per member.



The Honorable Mayor and Borough Council
Milesburg Borough
Centre County
Milesburg, PA 16853

We have conducted a compliance audit of the Milesburg 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 the objective identified above. Milesburg Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Milesburg 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 Milesburg 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 – Improper Withdrawal And Loan Provisions Contained In The Plan's Allocated Insurance Policies

Finding No. 3 – Incorrect Data Certified On Actuarial Valuation Report

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

August 12, 2009

JACK WAGNER
Auditor General

MILESBURG 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 defined contribution pension costs in the year 2008, as illustrated below:

State aid allocation	\$ 10,365
Actual municipal pension costs	<u>(10,245)</u>
Excess state aid	<u><u>\$ 120</u></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 were unaware of the need 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 in the year 2008, in the total amount of \$120, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$120 of excess state aid received in the year 2008 to the Commonwealth from the nonuniformed pension plan. 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

Furthermore, we 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 defined contribution pension costs.

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

MILESBOURG BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Withdrawal And Loan Provisions Contained In The Plan’s Allocated Insurance Policies

Condition: The pension plan’s allocated insurance contracts contain provisions that provide for participant loans and withdrawals prior to the member’s eligibility to receive retirement benefits.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not for withdrawals or loans to plan members prior to their retirement.

Cause: Plan officials failed to adopt adequate internal control procedures to ensure the allocated insurance contract provisions were in compliance with Act 205.

Effect: The assets of the plan can be withdrawn and used for purposes other than the provision of retirement benefits.

Recommendation: We recommend that municipal officials take appropriate action to eliminate the unauthorized loan and withdrawal provisions from the plan’s allocated insurance policies at their earliest opportunity to do so.

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

Finding No. 3 – Incorrect Data Certified On Actuarial Valuation Report

Condition: Actuarial valuation report form 203A, with a valuation date of January 1, 2007, submitted to the Public Employee Retirement Commission (PERC), contained incorrect information.

MILESBURG BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

The municipality supplied the following incorrect information:

- The plan type was reported as a Situation No. 1 (discretionary) instead of a Situation No. 4 (defined contribution); and
- The report failed to specify the flat dollar contribution of \$2,500 per member.

Criteria: Paragraph 6 of Ordinance No. 270, as amended, states in part:

For each eligible employee, the employer shall annually contribute the difference between the contribution made for each eligible employee by the Commonwealth and \$2,500.

Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the data contained in the actuarial valuation report was consistent with the plan's governing document.

Effect: Although the incorrect data in the actuarial valuation report did not affect the borough's state aid allocations received during the audit period, because the borough's annual state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data could result in the borough receiving an incorrect allocation of state aid in the future.

Recommendation: We recommend plan officials establish adequate internal control procedures to ensure future actuarial valuation reports properly reflect the status of the pension plan.

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

MILESBURG BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2003	\$ 5,863	None
2004	6,655	\$ 2,000
2005	8,822	None
2006	8,545	1,455
2007	8,950	1,050
2008	10,365	None

MILESBURG BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Milesburg Borough Nonuniformed Pension Plan
Centre County
416 Front Street
Milesburg, PA 16853

The Honorable Phyllis Y. Jodon	Mayor
Mr. Paul Bartley	Council President
Ms. Paula J. Hall	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.