

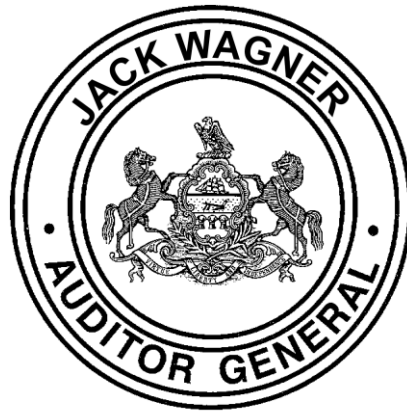
ROYALTON BOROUGH NONUNIFORMED PENSION PLAN

DAUPHIN COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010



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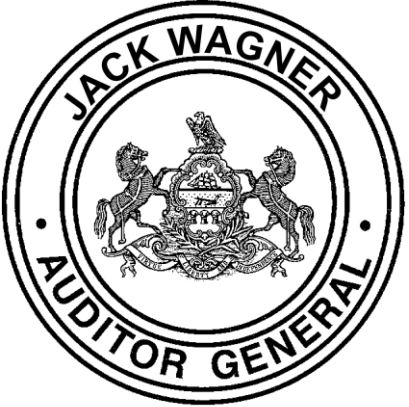
BACKGROUND

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 Royalton 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 Royalton Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 1994-5, as amended, and a separately executed plan agreement. Active members are not required to contribute to the plan. The municipality is required to contribute 8 percent of each member's current year's participating payroll.



The Honorable Mayor and Borough Council
Royalton Borough
Dauphin County
Middletown, PA 17057

We have conducted a compliance audit of the Royalton 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 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 this objective.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Royalton 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 Royalton 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 – Improper Provision Contained In The Plan’s Adoption Agreement

Finding No. 2 – Restated Plan Document Not Adopted By Ordinance Or Resolution

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

November 10, 2011

JACK WAGNER
Auditor General

ROYALTON BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Improper Provision Contained In The Plan’s Adoption Agreement

Condition: The plan’s separately executed pension plan agreement, effective January 1, 2009, improperly contains a hardship distribution provision. Section 35 of the plan’s adoption agreement states, in part:

Hardship distributions are permitted from all Participant Accounts AND, the following limitations apply to hardship distributions:

- Distributions may only be made from accounts which are fully Vested.
- A Participant does not include a former Employee at the time of the hardship distribution.

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 distributions to be made to active plan members prior to their eligibility for retirement benefits.

Cause: Plan officials were not aware that the hardship distribution provision is not authorized.

Effect: The unauthorized hardship distribution provision violates the intent of Act 205 to only provide distributions to plan members upon their retirement or termination of employment with the municipality.

Recommendation: We recommend that municipal officials take appropriate action to eliminate the hardship distribution provision from the plan’s adoption agreement at their earliest opportunity to do so.

ROYALTON BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management Response: Municipal officials agreed with the finding without exception. With the assistance of its plan's consultant, the borough is in the process of revising the plan's adoption agreement to be effective January 1, 2011.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Restated Plan Document Not Adopted By Ordinance Or Resolution

Condition: The Royalton Borough Nonuniformed Pension Plan is currently controlled by the provisions of Resolution No. 1994-5, as amended, which adopts a separately executed pension plan agreement with an effective date of January 1, 1994; however, the terms, provisions and conditions of the nonuniformed pension plan were restated in a separately executed plan document effective January 1, 2009. However, Resolution No. 1994-5 has not been amended to reflect the provisions of the updated plan agreement.

Criteria: Sound internal control dictates that benefit provisions should be consistent within the plan documents to avoid the payment of improper or inconsistent benefits to plan members and their beneficiaries.

Cause: Plan officials were unaware that the borough should formally adopt the provisions of the restated plan agreement through a properly executed ordinance or resolution.

Effect: The failure to properly adopt the plan agreement could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

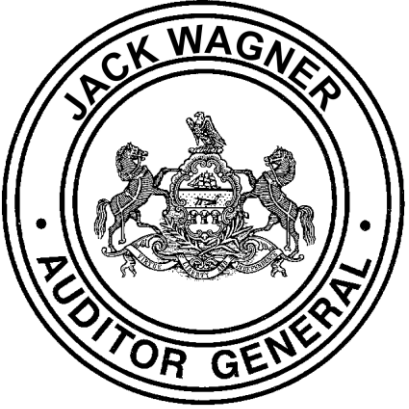
Recommendation: We recommend that municipal officials take appropriate action to formally adopt the restated plan document through a properly executed ordinance or resolution.

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

ROYALTON BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 9,540	\$ 2,936
2006	9,763	2,263
2007	10,006	2,478
2008	10,512	None
2009	8,621	None
2010	7,999	1,889



ROYALTON BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Royalton Borough Nonuniformed Pension Plan
Dauphin County
101 Northumberland Street
Middletown, PA 17057

The Honorable Robert Stone	Mayor
Mr. Tildon Sides	Council President
Ms. Bonita Young	Chief Administrative Officer

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.