

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN

YORK 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 Stewartstown 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 Stewartstown Borough Nonuniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2006-02, as amended, and a separately executed plan agreement, adopted pursuant to Act 15. Active members are not required to contribute to the plan. The municipality is required to quarterly contribute 10 percent of each member's base compensation.



The Honorable Mayor and Borough Council
Stewartstown Borough
York County
Stewartstown, PA 17363

We have conducted a compliance audit of the Stewartstown 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 finding 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. Stewartstown 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.

The Stewartstown 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 Stewartstown 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 Stewartstown 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 – Incorrect Data On Certification Form AG 385 Resulting In A
Net Overpayment Of State Aid

Finding No. 2 – Failure To Properly Fund Members' Accounts

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

October 6, 2011

JACK WAGNER
Auditor General

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

· Allocation Of State Aid In Excess Of Entitlement

The borough transferred the excess state aid originally deposited into the nonuniformed pension plan to the police pension plan.

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment
Of State Aid

Condition: The borough understated the police pension plan members’ payroll by \$13,636 in 2010 on Certification Form AG 385. In addition, the borough certified an ineligible nonuniformed employee and overstated the nonuniformed plan members’ payroll by \$29,402 in 2010 on Certification Form AG 385.

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

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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 plans. Because the borough’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the borough’s state aid allocation, as identified below:

Type Of Plan	Normal Cost	Payroll Overstated (Understated)	State Aid Overpayment (Underpayment)
Police	9.489%	\$ (13,636)	\$ (1,294)
Nonuniformed	10.0%	29,402	2,940
Total net overpayment of state aid			\$ 1,646

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$1,646, be returned to the Commonwealth from borough funds. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension 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 the check.

We also recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Finding No. 2 – Failure To Properly Fund Members’ Accounts

Condition: The borough did not properly fund the accounts of all the plan members in 2009 and 12 plan members in 2010, as illustrated below:

<u>2009 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contribution Excess/(Shortage)</u>
1	\$ 4,082	\$ 4,171	\$ 89
2	3,630	3,700	70
3	4,252	3,653	(599)
4	3,473	4,023	550
5	1,658	1,699	41
6	3,860	3,713	(147)
7	1,383	1,429	46
8	2,610	2,980	370
9	3,100	2,843	(257)
10	2,435	2,190	(245)
11	3,102	3,002	(100)
12	6,158	6,230	72
		Total	<u>\$ (110)</u>

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

<u>2010 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contribution Excess/(Shortage)</u>
1	\$ 4,297	\$ 4,687	\$ 390
2	3,557	3,825	268
4	3,348	4,693	1,345
5	2,391	2,486	95
6	3,549	3,826	277
7	3,431	3,617	186
8	2,382	2,065	(317)
9	3,043	3,219	176
11	3,135	3,162	27
12	5,951	6,796	845
13	2,469	2,743	274
14	2,503	2,784	281
		Total	<u>\$ 3,847</u>

Criteria: Section 13 of the borough’s agreement with PMRS states, in part:

The Borough will contribute quarterly three percent (3%) of each member’s compensation to the System. The contribution will be credited to each member’s account. The Borough may annually elect to contribute at a higher rate in future years by adopting a resolution and filing a copy of it with the Board.

Pursuant to Resolution Nos. 2008-11 and 2009-13, the borough was required to contribute 10% of the members’ compensation based on the members’ regular work hours which does not include overtime or commissions earned.

Cause: In 2010, municipal contributions were made based on the members’ W-2 wages which included overtime instead of the members’ base compensation. In addition, plan officials failed to establish adequate internal control procedures to ensure that plan members’ accounts were properly funded in accordance with the provisions contained in Resolution Nos. 2008-11 and 2009-13.

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document or the borough making excess contributions to each plan member’s account.

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the borough review the applicable members' accounts with PMRS and make the adjustments deemed necessary to ensure the members' accounts are properly funded.

We also recommend that plan officials implement adequate internal control procedures to ensure that the correct payroll figures and the annual resolutions determining the intended municipal contributions are forwarded to PMRS to ensure that the members' accounts are properly funded in the future.

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

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 40,765	\$ 7,386
2006	48,649	None
2007	35,859	8,231
2008	29,284	2,339
2009	25,947	13,987
2010	37,858	12,049

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Stewartstown Borough Nonuniformed Pension Plan
York County
6 North Main Street
Stewartstown, PA 17363

The Honorable Bonner Smith	Mayor
Ms. Marsha England	Council President
Ms. Stacy Myers	Chief Administrative Officer
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.auditorgen.state.pa.us.