

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN

YORK COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Finding	5
Finding and Recommendation:	
Finding – Allocation Of State Aid In Excess Of Entitlement	6
Supplementary Information	8
Report Distribution List	9

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 defined contribution pension plan locally controlled by the provisions of Ordinance No. 2006-02, as amended, adopted pursuant to Act 15. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's 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, 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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. 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 with 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 finding further discussed later in this report:

Finding – Allocation Of State Aid In Excess Of Entitlement

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.

June 5, 2009

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:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The borough reimbursed \$7,928 to the Commonwealth for the overpayment of state aid.

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2006, the borough allocated state aid to the nonuniformed pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

Municipal pension costs	\$ 43,991
Less: employee forfeitures applied	<u>(1,088)</u>
Adjusted municipal pension costs	<u><u>\$ 42,903</u></u>
State aid allocated	\$ 48,649
Less: adjusted municipal pension costs	<u>(42,903)</u>
Excess state aid allocated to plan	<u><u>\$ 5,746</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 plan 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 defined contribution pension costs after the application of employee forfeitures.

Effect: It is this department’s opinion that, since 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. The borough does have the option to allocate the excess state aid to its defined benefit police pension plan. If this option is not selected, the overpayment of state aid in 2006, in the total amount of \$5,746 must be returned to the Commonwealth for redistribution.

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that municipal officials either allocate the \$5,746 of excess state aid to their defined benefit police pension plan or return it 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the pension plan with the plan's actual pension costs which could be reduced through the application of employee forfeitures.

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
2003	\$ 23,058	\$ 8,189
2004	25,710	10,373
2005	40,765	7,386
2006	48,649	None
2007	35,859	8,231
2008	29,284	2,339

STEWARTSTOWN BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

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

The Honorable Richard Hall	Mayor
Ms. Marsha England	Council President
Ms. Susan Grow	Secretary/Treasurer
Mr. Benjamin F. Mader	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.