

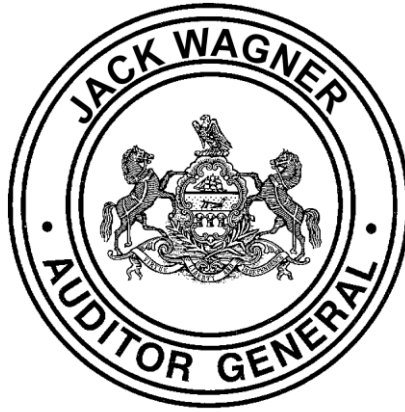
TIONESTA BOROUGH NONUNIFORMED PENSION PLAN

FOREST COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



TIONESTA BOROUGH NONUNIFORMED PENSION PLAN

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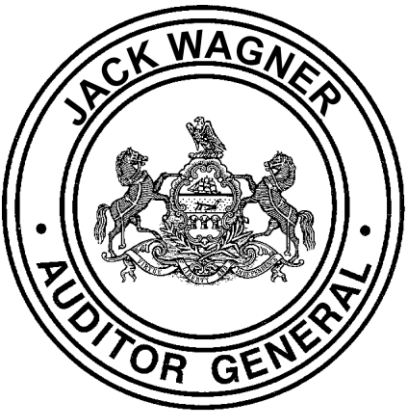
BACKGROUND

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 Tionesta 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 Tionesta Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 4-2001. Active members are not required to contribute to the plan. The municipality is required to contribute 8 percent of each participant's compensation.



The Honorable Mayor and Borough Council
Tionesta Borough
Forest County
Tionesta, PA 16353

We have conducted a compliance audit of the Tionesta Borough Nonuniformed Pension Plan for the period January 1, 2008, 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 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 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 borough has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Tionesta 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 Tionesta 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 – Partial Compliance With Prior Audit Recommendation –
Receipt 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 Tionesta Borough and, where appropriate, their responses have been included in the report.

April 19, 2011

JACK WAGNER
Auditor General

TIONESTA BOROUGH NONUNIFORMED PENSION PLAN STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Tionesta Borough has complied with the prior audit recommendations concerning the following:

- Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Municipal officials withdrew the excess municipal contributions deposited to the pension plan during the prior audit period; and

- Failure To Distribute Demutualization Compensation To Individual Members' Accounts

Municipal officials sold the stock received through demutualization and properly allocated the proceeds and all undistributed dividends into the accounts of the 3 plan members eligible to receive the demutualization compensation.

Partial Compliance With Prior Audit Recommendation

Tionesta Borough has partially complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

The borough reimbursed \$313 to the Commonwealth for the excess state aid received in 2007; however, plan officials failed to reconcile the amount of state aid allocated to the borough with the plan's annual defined contribution pension costs attributable to full-time plan members in the years 2008 and 2010, as further discussed in the Finding and Recommendation section of this report.

TIONESTA BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Receipt Of State Aid In Excess Of Entitlement

Condition: As disclosed in the prior audit report, the borough received state aid in excess of the nonuniformed pension plan's defined contribution pension costs in the year 2007. During the current audit period, the borough reimbursed \$313 to the Commonwealth for the excess state aid received; however, plan officials failed to reconcile the amount of state aid allocated to the borough with the plan's annual defined contribution pension costs attributable to full-time plan members in the years 2008 and 2010. The borough received state aid in excess of the nonuniformed pension plan's defined contribution pension costs for full-time plan members in the years 2008 and 2010, as illustrated below:

	<u>2008</u>	<u>2010</u>
State aid allocation	\$ 5,772	\$ 7,230
Municipal pension costs for full-time plan members	<u>(5,275)</u>	<u>(7,200)</u>
Excess state aid	<u>\$ 497</u>	<u>\$ 30</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.

In addition, Section 402(d) of Act 205 states, in part:

Eligible recipients of general municipal pension system State aid. Any county of the second class which, prior to the effective date of this chapter, received allocations for its police pension fund pursuant to the act of May 12, 1943 (P.L. 259, No. 120), or any city, borough, incorporated town or township or any home rule municipality formerly classified as a city, borough, incorporated town or township which employs one or more full-time municipal employees. . . .

TIONESTA BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, Section 402(e)(2) of Act 205 states, in part:

The applicable number of units shall be attributable to each active employee who was employed on a full-time basis for a minimum of six consecutive months. . . .

Therefore, Act 205 state aid funding may only be used to fund the pension costs attributable to full-time employees.

Cause: Plan officials failed to reconcile the borough's allocations of state aid to the plan's annual defined contribution pension costs attributable to full-time members.

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 overpayments of state aid in the years 2008 and 2010, in the total amount of \$527, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$527 of excess state aid received in the years 2008 and 2010 to the Commonwealth from the borough's general fund. 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.

Furthermore, we recommend that plan officials reconcile the amount of state aid allocated to the borough with the plan's annual defined contribution pension costs attributable to full-time members and reimburse any excess state aid received to the Commonwealth.

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

TIONESTA BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 5,671	\$ 2,233
2006	5,814	2,267
2007	5,772	2,567
2008	5,772	1,248
2009	5,145	3,837
2010	7,230	2,538

TIONESTA BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Tionesta Borough Nonuniformed Pension Plan
Forest County
P.O. Box 408
Tionesta, PA 16353

The Honorable Brian Hale	Mayor
Ms. Lois M. Lackey	Council President
Ms. Colleen M. Call	Borough Manager

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.