

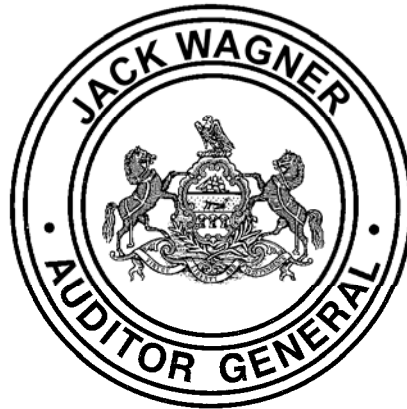
TOWANDA BOROUGH NONUNIFORMED PENSION PLAN

BRADFORD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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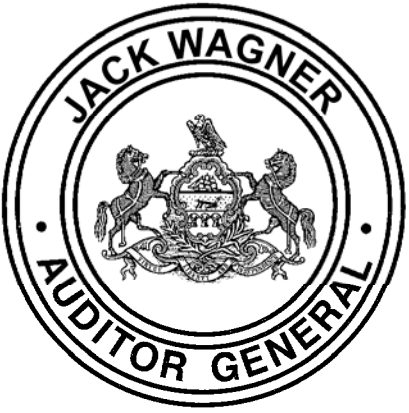
BACKGROUND

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 Towanda 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 Towanda Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a separately executed adoption agreement dated January 1, 1995. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's previous years participating payroll, plus any forfeitures.



The Honorable Mayor and Borough Council
Towanda Borough
Bradford County
Towanda, PA 18848

We have conducted a compliance audit of the Towanda Borough Nonuniformed Pension Plan for the period January 1, 2007, to December 31, 2009. 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Towanda 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 Towanda 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 – Municipal Contributions Made In Excess Of Contributions
Required To Fund The Plan

Finding No. 2 – Improper Distribution To Terminated Member

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

May 18, 2010

JACK WAGNER
Auditor General

TOWANDA BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials allocated \$2,359 of excess state aid to their defined benefit police pension plan.

TOWANDA BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to the nonuniformed pension plan in excess of contributions required to fund the pension plan in 2007 and 2009, as illustrated below:

	<u>2007</u>	<u>2009</u>	<u>Total</u>
Actual municipal pension costs	\$ 25,066	\$ 26,938	\$ 52,004
State aid allocated	<u>(25,007)</u>	<u>(15,787)</u>	<u>(40,794)</u>
Municipal contributions required to fund plan	<u>\$ 59</u>	<u>\$ 11,151</u>	<u>\$ 11,210</u>
Actual municipal contributions made	\$ 408	\$ 11,796	\$ 12,204
Municipal contributions required to fund plan	<u>(59)</u>	<u>(11,151)</u>	<u>(11,210)</u>
Excess municipal contributions	<u>\$ 349</u>	<u>\$ 645</u>	<u>\$ 994</u>

Criteria: Resolution No. 95-14, dated December 4, 1995, states, in part:

...employer contribution to the retirement plan at 10% of previous years participating payroll, plus any forfeitures.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: Plan officials failed to annually reconcile the amount of state aid and employer contributions allocated to the pension plan with the plan's annual defined contribution pension costs.

TOWANDA BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The municipality allocated funds to the members' accounts in excess of the defined contribution percentage rate contained in the plan's governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

It is the opinion of this department that the borough's failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the municipal contributions maintained in the members' accounts at this time.

Recommendation: We recommend that the borough, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the members' accounts and be reimbursed to the borough.

We also 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 pension plan's annual defined contribution pension costs.

Management's Response: Municipal officials will respond to the finding upon receipt of the audit report.

Finding No. 2 – Improper Distribution To Terminated Member

Condition: On February 11, 2009, plan officials withdrew \$2,269 from a terminated plan member's account and distributed the funds to the member prior to the member's eligibility for a distribution. The plan member terminated service at age 56 with 4 years of service and was 60 percent vested and eligible for a normal retirement benefit distribution on October 1, 2016.

Criteria: Since the passage of Act 205, pension plan assets are to be used for payment of retirement benefits. 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.

TOWANDA BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: The employee transferred to the borough’s nonuniformed union pension plan and plan officials failed to establish adequate internal control procedures to ensure that the member did not receive the distribution due until her normal retirement date.

Effect: Allowing withdrawals of contract amounts prior to retirement violates the purpose for which state aid was allocated to the municipality, adversely affects the retirement income of an annuitant and undermines the integrity of the pension plan.

Recommendation: We recommend that plan officials adopt adequate internal control procedures to ensure plan assets are not distributed to plan members prior to their retirement benefit eligibility.

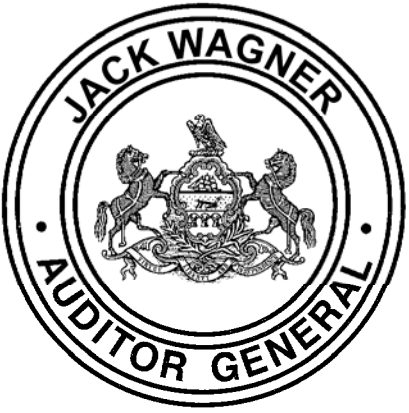
Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance with the finding recommendation will be evaluated during our next audit of the plan. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future.

TOWANDA BOROUGH NONUNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 19,645	\$ 2,838
2005	23,456	None
2006	18,900	6,084
2007	25,007	408
2008	25,569	799
2009	15,787	11,796



TOWANDA BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Towanda Borough Nonuniformed Pension Plan
Bradford County
724 Main Street
Towanda, PA 18848

The Honorable Garrett Miller	Mayor
Mr. Mark Christini	Council President
Mr. Thomas Fairchild, Jr.	Borough Manager
Ms. Mary Ann Harris	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.