

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN

BLAIR COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, 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 Williamsburg 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 Williamsburg Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 306, as amended. Active members are not required to contribute to the plan. The municipality is required to contribute 15 percent of each member's wages.



The Honorable Mayor and Borough Council
Williamsburg Borough
Blair County
Williamsburg, PA 16693

We have conducted a compliance audit of the Williamsburg 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 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 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. Williamsburg Borough contracted with an independent certified public accounting firm for audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania for the years ended December 31, 2009 and 2010, 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 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 an immaterial amount of reportable assets.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Williamsburg 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 Williamsburg 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 – Partial Compliance With Prior Audit Recommendation -
Receipt Of State Aid In Excess Of Entitlement
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation -
Failure To Fund Member's Accounts
- Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System
- Finding No. 4 – Pension Plan Account Transactions Not Adequately
Monitored By The Municipality

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

January 27, 2012

JACK WAGNER
Auditor General

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendations

Williamsburg Borough has partially complied with the prior audit recommendations concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

During the current audit period, the borough reimbursed \$2,702 to the Commonwealth for excess state aid received in 2008; however, municipal officials failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the plan's defined contribution pension costs for the years 2009, 2010 and 2011, as further discussed in the Findings and Recommendations section of this report; and

- Failure To Properly Fund Member's Account

During the current audit period, the borough paid the member who retired on April 30, 2008, the contribution due in the amount of \$1,260. However, municipal officials failed to properly fund the accounts of all eligible pension plan members for the years 2009, 2010 and 2011, as further discussed in the Findings and Recommendations section of this report.

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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 2008. During the current audit period, the borough reimbursed \$2,702 to the Commonwealth for the excess state aid received; however the borough failed to reconcile the amount of state aid allocated to the nonuniformed pension plan with the plan’s defined contribution pension costs in the years 2009, 2010 and 2011.

The borough received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs in the years 2009, 2010 and 2011, as illustrated below:

	<u>2009</u>	<u>2010</u>	<u>2011</u>
State aid allocation	\$ 15,216	\$ 16,174	\$ 16,659
Actual municipal pension costs	<u>(13,217)</u>	<u>(14,092)</u>	<u>(14,627)</u>
Excess state aid	<u>\$ 1,999</u>	<u>\$ 2,082</u>	<u>\$ 2,032</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.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

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 2009, 2010 and 2011, in the total amount of \$6,113, must be returned to the Commonwealth for redistribution.

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the municipality return the \$6,113 of excess state aid received in the years 2009, 2010 and 2011 to the Commonwealth from the nonuniformed pension plan. 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 again recommend that plan officials establish adequate internal control procedures to reconcile the amount of state aid allocated to the nonuniformed pension plan with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Fund Member's Accounts

Condition: As disclosed in the prior audit report, in 2008, the borough did not properly fund the account of a member who retired on April 30, 2008. During the current audit period, the borough deposited the \$1,260 contribution due to the member's account for the year 2008; however, the borough failed to properly fund the accounts of all eligible pension plan members for the years 2009, 2010 and 2011.

For the year 2009, the borough failed to fully fund the accounts of two plan members, totaling \$643. In addition, for the years 2010 and 2011, the borough failed to fund the account of a member who was hired on October 18, 2010, totaling \$4,178. Furthermore, for the year 2011, the borough failed to fund the account of a member who was hired on October 11, 2011, totaling \$573. Therefore, the members' accounts are due a total of \$5,394 for the years 2009, 2010 and 2011.

Criteria: The plan's governing document, Ordinance No. 306, as amended, sets the municipal contribution rate at 15 percent of wages per full-time employee as of the date on which such employee's employment commences.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Due to the borough's failure to properly fund the referenced members' accounts, the borough must now pay interest on the delinquent contributions.

Recommendation: We recommend that the borough deposit the contributions due to the members' accounts for the years 2009, 2010 and 2011 in the amount of \$5,394, with interest, at a rate earned by the plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also again recommend that plan officials establish adequate internal control procedures to ensure the accounts of all eligible plan members are properly funded.

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

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System

Condition: The pension plan's record-keeping system did not provide effective control over assets, revenues and expenses and does not meet the minimum requirements of financial records recommended by this department. The deficiencies are as follows:

- Employee W-2s for 2008 were not available for examination;
- A signed copy of the Act 205 actuarial valuation report dated January 1, 2009, was not on file at the municipality;
- The Certification Form AG 385 for 2009 was not on file at the municipality;
- An allocated insurance roster was not maintained;
- An active members' payroll roster was not maintained; and
- A terminated vested participant roster was not maintained to ensure proper allocation of forfeitures.

Criteria: An adequate system of accounting and record keeping is a prerequisite for the sound administration of pension plans.

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Due to management turnover since our prior audit, plan officials were unaware of their various record-keeping responsibilities.

Effect: The failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations.

Recommendation: We recommend that plan officials establish accounting procedures which meet the minimum record-keeping requirements of this department. Plan officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting procedures.

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

Finding No. 4 – Pension Plan Account Transactions Not Adequately Monitored By The Municipality

Condition: Plan officials did not effectively monitor the activity of the pension plan accounts as evidenced by the following discrepancies:

- The borough’s ledgers were not reconciled to the pension plan accounts to ensure proper pension plan obligations were paid;
- The plan’s checking account was not reconciled;
- The annual contributions due to the members’ accounts were not reconciled to the actual payments made;
- The annual state aid allocation was not reconciled to the plan’s annual defined contribution pension costs; and
- Investment income was not reviewed for accuracy and reasonableness.

Criteria: The fiduciary responsibility for the assets held in a pension account remains with the municipality.

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: Due to management turnover since our prior audit, plan officials were not aware of their fiduciary responsibility to monitor the pension plan's accounts.

Effect: Inadequate monitoring of the pension plan accounts resulted in \$6,440 of police pension plan assets remaining in a nonuniformed pension plan account, and could lead to other undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that municipal officials transfer \$6,440 from the nonuniformed pension plan to the police pension plan. In addition, we recommend that plan officials monitor the pension plan's accounts to ensure the accuracy and propriety of the transactions. The minimum steps that should be applied by a municipality to adequately monitor the plan's accounts are:

- Verify the mathematical accuracy of the account statements;
- Reconcile the Commonwealth and municipal contributions shown on the account statements to the municipality's records;
- Review investment income for accuracy and reasonableness;
- Reconcile any large or material receipt, other than contributions, shown on the account statements to the municipality's records; and
- Reconcile any large or material disbursement shown on the account statements to the municipality's records.

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

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$6,113. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 15,056	None
2006	12,354	None
2007	9,619	\$ 3,246
2008	13,270	None
2009	15,216	None
2010	16,174	None

WILLIAMSBURG BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Williamsburg Borough Nonuniformed Pension Plan
Blair County
305 East Second Street
Williamsburg, PA 16693

The Honorable Theodore R. Hyle	Mayor
Ms. Carlee Ranalli	Council President
Mr. F. Dennis Clapper	Borough Manager
Ms. Amyjo White	Borough Secretary

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.