

WILLIAMSBURG BOROUGH POLICE 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 Police 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943 (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1 et seq.

The Williamsburg Borough Police Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 304, as amended, adopted pursuant to Act 120. 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 Police 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 objective 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Williamsburg Borough Police 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Williamsburg Borough Police 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 – Failure To Maintain An Adequate Record-Keeping System

Finding No. 2 – 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 POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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:

- Investment rosters or ledgers for the plan’s irrevocably committed funds were not maintained;
- 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.

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.

WILLIAMSBURG BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – 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 determine that plan obligations were paid from the irrevocably committed funds account;
- The plan's checking account was not reconciled;
- The annual contributions due to the members' accounts were not reconciled to the actual payments made; 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.

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.

WILLIAMSBURG BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

WILLIAMSBURG BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	None	None
2006	None	None
2007	None	None
2008	None	None
2009	None	None
2010	None	None

WILLIAMSBURG BOROUGH POLICE PENSION PLAN
COMMENT

On December 2, 1985, the municipality passed Ordinance No. 287 providing for the irrevocable commitment of certain state funds payable to the Borough of Williamsburg to the police pension plan. This ordinance was established in accordance with Act 205, Section 403(a), which states in part:

Any funds paid to a municipality pursuant to the act of May 12, 1943 (P.L. 259, No. 120), referred to as the Foreign Casualty Insurance Premium Tax Allocation Law, prior to the effective date of this act, and which have been either actually expended or, by action of the municipality, are irrevocably committed to be expended only in accordance with Foreign Casualty Insurance Premium Tax Allocation Law, shall not be returned for redistribution pursuant to section 1.2 of the Foreign Casualty Insurance Premium Tax Allocation Law.

Because the pension plan has an irrevocably committed asset balance, state aid and municipal contributions cannot be allocated to this plan until the asset balance is depleted.

At December 31, 2010, the police pension plan had an asset balance of \$385,747 that was not earmarked for an individual member of the municipality's defined contribution police pension plan.



WILLIAMSBURG BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Williamsburg Borough Police 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.