

LIMITED PROCEDURES ENGAGEMENT

McKees Rocks Borough Non-Uniformed Union Pension Plan

Allegheny County, Pennsylvania
For the Period
January 1, 2012 to December 31, 2014

May 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
McKees Rocks Borough
Allegheny County
McKees Rocks, PA 15136

We conducted a Limited Procedures Engagement (LPE) of the McKees Rocks Borough Non-Uniformed Union Pension Plan for the period January 1, 2012 to December 31, 2014 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- × Whether municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- × Whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × Whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the McKees Rocks Borough Non-Uniformed Union Pension Plan was not being 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 subsequent to this letter:

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this letter were discussed with officials of McKees Rocks Borough and, where appropriate, their responses have been included in this letter. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.



EUGENE A. DEPASQUALE
Auditor General

April 22, 2016

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MCKEES ROCKS BOROUGH NON-UNIFORMED UNION PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

McKees Rocks Borough has complied with the prior recommendation concerning the following:

- Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

The municipality reimbursed \$3,744 to the Commonwealth for the overpayment of state aid received in 2009.

MCKEES ROCKS BOROUGH NON-UNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The borough failed to certify 1 eligible non-uniformed union employee (1 unit) and understated payroll by \$16,902 on the Certification Form AG 385 filed in 2013. In addition, the borough certified 2 ineligible police officers (4 units) and overstated payroll by \$56,476 on the Certification Form AG 385 filed in 2014. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocations were based on unit value, the incorrect certification of pension data affected the borough’s state aid allocations, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2013	Non-Uniformed	(1)	\$ 3,885	\$ (3,885)
2014	Police	4	\$ 3,757	<u>15,028</u>
Net Overpayment of State Aid				<u><u>\$ 11,143</u></u>

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligation MMO due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

MCKEES ROCKS BOROUGH NON-UNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$11,143, be returned 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 pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next engagement of the pension plan.

MCKEES ROCKS BOROUGH NON-UNIFORMED UNION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2009	\$ 20,118	None
2010	19,500	\$ 3,135
2011	21,993	None
2012	10,555	11,015
2013	15,537	15,813
2014	18,785	11,508

MCKEES ROCKS BOROUGH NON-UNIFORMED UNION PENSION PLAN
DISTRIBUTION LIST

This letter was initially distributed to the following:

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Governor
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MCKEES ROCKS BOROUGH NON-UNIFORMED UNION PENSION PLAN
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