

SOUTH FAYETTE TOWNSHIP NONUNIFORMED UNION PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004, TO DECEMBER 31, 2006



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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 South Fayette Township Nonuniformed Union 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.

As further described in the Letter from the Auditor General included in this report, the township's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Plan. The plan is also affected by the provisions of collective bargaining agreements between the township and its nonuniformed employees. Active members are not required to contribute the plan. The municipality was required to contribute, per week, per member, \$92.32 for laborers and \$96.32 for mechanics for the year 2004, \$98.32 for laborers and \$102.32 for mechanics for the year 2005, and \$103 for all full-time members for the year 2006.



Board of Township Commissioners
South Fayette Township
Allegheny County
Morgan, PA 15064

We have conducted a compliance audit of the South Fayette Township Nonuniformed Union Pension Plan for the period January 1, 2004, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. The township's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Plan, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the South Fayette Township Nonuniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the South Fayette Township Nonuniformed Union Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township's compliance with those requirements. 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 South Fayette Township Nonuniformed Union 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 – Allocation 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 South Fayette Township and, where appropriate, their responses have been included in the report.

January 25, 2008

JACK WAGNER
Auditor General

SOUTH FAYETTE TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2004, the township allocated state aid to the nonuniformed union pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

State aid allocation	\$ 64,779
Less: Actual municipal pension costs	(63,605)
	<hr/>
Excess state aid	<u>\$ 1,174</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 plan 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 were unaware of the need to annually reconcile the amount of state aid allocated to the pension plan with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that, since 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. The township does have the option to allocate the excess state aid to its defined benefit pension plan. If this option is not selected, \$1,174 must be returned to the Commonwealth for redistribution.

SOUTH FAYETTE TOWNSHIP NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that municipal officials either allocate the \$1,174 to their defined benefit pension plan or return it 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 plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

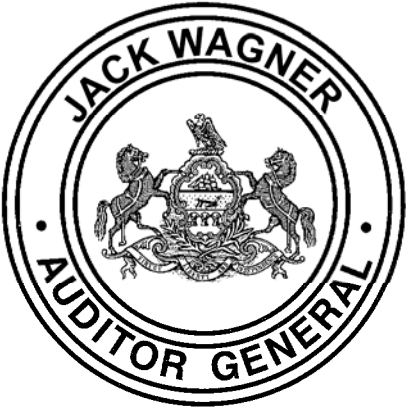
In addition, we recommend that, in the future, plan officials reconcile the amount of state aid and municipal contributions allocated to the pension plan with the pension plan's actual defined contribution pension costs.

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

SOUTH FAYETTE TOWNSHIP NONUNIFORMED UNION PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2001	\$ 38,447	\$ 14,185
2002	40,292	11,654
2003	54,068	4,202
2004	64,779	None
2005	37,341	30,162
2006	50,472	17,817



SOUTH FAYETTE TOWNSHIP NONUNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

South Fayette Township Nonuniformed Union Pension Plan
Allegheny County
515 Millers Run Road
Morgan, PA 15064

Mr. Thomas J. Stray	President, Board of Township Commissioners
Mr. Michael W. Hoy	Township Manager
Ms. Marion M. Abel	Financial Administrator

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.