

COMPLIANCE AUDIT

Green Tree Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

December 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Green Tree Borough
Allegheny County
Pittsburgh, PA 15220

We have conducted a compliance audit of the Green Tree Borough Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined 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 period under audit. State aid allocations that were deposited into the pension plan for the years ended December 31, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.

- We determined 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, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for plan members who separated employment and elected a lump-sum form of pension benefit during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports was prepared and submitted by March 31, 2018, 2020, and 2022, 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.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

Green Tree Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.

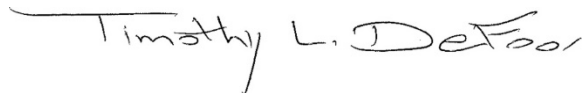
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Green Tree Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory

requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Green Tree Borough Non-Uniformed 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 – Failure To Properly Fund Members’ Accounts

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

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
November 14, 2022

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Green Tree Borough Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Green Tree Borough Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1793, as amended. Prior to January 1, 2018, the plan was controlled by the provisions of Ordinance No. 1720. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established May 5, 1969. Active members are not required to contribute to the plan. The municipality was required to contribute a percentage of each full-time employee’s compensation, as follows, based on their years of service, as follows:

	Ordinance No. 1720	Ordinance No. 1793	Ordinance No. 1836
	2014 to 2017	2018 to 2020	Effective 2021
Length of Service			
1 to 5 years	10%	10%	11%
6 to 10 years	11%	11%	12%
11 to 15 years	12%	12%	13%
16 or more years	15%	15%	16%

As of December 31, 2021, the plan had 14 active member and 5 terminated members eligible for vested benefits in the future.

GREEN TREE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Members’ Accounts

Condition: Based on documentation provided by the borough, we were unable to fully determine applicable contribution amounts due and/or allocable for each plan member for the years 2019 and 2020 in accordance with the plan’s governing documents. In addition, during 2018, a newly appointed former vested police pension plan member was credited with contributions at a rate based on years of aggregated credited service with the borough instead of the individual’s years of actual service as an active participant of the nonuniformed pension plan.

Criteria: Section 4.1 of Ordinance No. 1793 (*in effect for periods prior to January 4, 2021*), states:

The employer shall make a monthly contribution in an amount equal to a percentage of the Participant’s monthly Compensation set forth as follows:

	Ordinance No. 1793 2018 to 2020
Length of Service	
1 to 5 years	10%
6 to 10 years	11%
11 to 15 years	12%
16 or more years	15%

Section 8.4 of the collective bargaining agreement (CBA) for full-time union employees, states, in part:

The Borough will make pension contributions for full-time employees as follows:

	CBA 4/1/2018 to 3/31/2021
Length of Service	
1 to 5 years	11%
6 to 10 years	12%
11 to 15 years	13%
16 or more years	16%

All contributions to be made to the pension plan shall be based on percentage of an employee’s gross salary and forwarded to the Plan on a monthly basis.

GREEN TREE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: As noted in the Criteria above, there were differing contribution rates for the borough's varying classes of non-uniformed (*union and non-union (management)*) employees during the audit period and there was also a recent turnover in plan officials responsible for administering the pension plan. In addition, the borough lacked adequate internal control procedures to ensure that plan members' accounts were properly funded in accordance with rates prescribed in these varying plan documents relative to its differing classifications of non-uniformed employees. It was further noted that the borough did not timely update the plan's governing document relative to the contribution rates effectively changed through the collective bargaining process which may also have impacted the affected years. (*The CBA contribution rates were not adopted into the plan document until enactment of Ordinance 1836 on January 4, 2021*). Furthermore, although records of monthly contributions due and paid for its employees and quarterly custodial statements were maintained by the borough, neither the borough, the custodian nor the consultant could provide annual summaries/reconciliations of amounts allocated specifically to individual plan members' accounts (*including those who terminated and were only partially vested in such accounts which also impacted timely identification and availability of forfeited amounts*) during 2018, 2019 and 2020. Moreover, in addition to the turnover in municipal officials responsible for the pension plan, the borough also changed plan custodians.

Effect: Due to the timing, adoption and implementation of changes in employer contribution rates, turnover, and a lack of adequate internal control procedures to ensure that the plan members' accounts were properly funded, contribution overages/deficiencies may have occurred for the years 2018, 2019, and 2020 as we were unable to ensure the propriety of contributions made for each plan member during these years, in part, because the employer contribution rates changed and incorrect rates were used to determine contributions for some plan members. The failure to properly fund the plan could result in plan members receiving additional benefits or being denied benefits to which entitled in accordance with the plan's governing document. In addition, annual reconciliations are necessary in order to ensure that proper contribution percentages are being applied to accurate payroll amounts and that municipal contributions are made in amounts outlined in the plan's governing documents, accordingly.

Recommendation: We recommend that the borough review members' accounts for the years 2018, 2019 and 2020, and based on payroll amounts and contribution rates in effect at the time of the required contributions, determine whether adjustments are necessary and pay any outstanding contributions, with interest, accordingly. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that, in the future, borough officials properly fund the accounts of all eligible plan members in accordance with the applicable provisions of the governing plan document.

GREEN TREE BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, we recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are annually reconciled and properly funded (*including the timely identification and application of available forfeited non-vested account balances*) in accordance with the provisions contained in the plan's governing plan document and collective bargaining agreement.

Management's Response: Municipal officials agreed with the finding without exception and indicated that they will take appropriate action to comply with the recommendation upon receipt of the audit report.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

GREEN TREE BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 78,744	\$ 37,260
2017	78,000	41,884
2018	79,634	42,013
2019	87,048	66,961
2020	78,781	65,623
2021	81,554	48,885

GREEN TREE BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Edward A. Schenck
Mayor

Mr. Arthur Tintori
Council President

Ms. Judy Miller
Borough Manager

Ms. Babette K. Legler
Finance Director

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.