

COMPLIANCE AUDIT

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

August 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
Mount Oliver Borough
Allegheny County
Mount Oliver, PA 15210

We have conducted a compliance audit of the Mount Oliver 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 objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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:

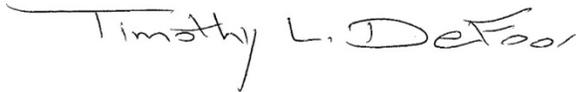
- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit. State aid allocations that 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Oliver 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 Mount Oliver 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 Member Accounts

The contents of this report were discussed with officials of Mount Oliver 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
July 19, 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 Mount Oliver 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 Mount Oliver Borough Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 995, and a separately executed plan agreement with the plan's custodian. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established November 15, 1985. Active members are not required to contribute to the plan. The municipality is required to contribute ten percent of compensation. As of December 31, 2021, the plan had five active members and two terminated members eligible for vested benefits in the future.

MOUNT OLIVER BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Mount Oliver Borough has complied with the prior recommendation concerning the following:

- Ordinance Improperly Amended By Resolution

The borough amended the plan's governing document with a properly executed ordinance.

MOUNT OLIVER BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Member Accounts

Condition: The borough did not properly fund the accounts of six plan members in 2021 in the total amount of \$27,671, as illustrated below:

<u>2021 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 3,763	\$ -	\$ 3,763
2	4,091	-	4,091
3	7,569	-	7,569
4	4,951	-	4,950
5	6,380	-	6,380
6	918	-	918
Total			<u>\$ 27,671</u>

Furthermore, the borough deposited \$16,966 of its 2021 state aid allocation into the non-uniformed pension plan checking account, where it remained as of our audit fieldwork completion instead of being allocated to member accounts.

Criteria: The plan agreement establishes the municipal contribution rate at ten percent of compensation.

Cause: Plan officials indicated a communication breakdown between the borough and plan consultant as to how to pay the municipal contribution. Also, plan officials failed to establish adequate internal control procedures to ensure that plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing documents.

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

Furthermore, due to the borough’s failure to properly fund the accounts of the plan members, 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 year 2021, with interest. A copy of the interest calculations should be maintained by the borough for examination during our next audit of the plan.

MOUNT OLIVER BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

We also recommend that plan officials implement adequate internal control procedures to ensure that the accounts of all eligible plan members are properly funded in accordance with the provisions contained in the plan's governing document.

Management's Response: Municipal officials agreed with the finding without exception and provided a copy of a check payable to the pension plan from the borough's general fund in the amount of \$27,671.14, dated July 6, 2022. In addition, borough officials stated that the 2021 state aid that had previously been deposited to the non-uniformed pension plan checking account would be transferred to the borough's general fund as reimbursement for the contributions made.

Furthermore, the borough manager stated that he attended a meeting with the plan administration team to review the finding and implement internal control measures so that required contributions will always be made in January.

Auditor's Conclusion: Based on the management response, it appears that municipal officials have taken steps to comply with the finding recommendation. We will confirm the deposit of the check and the allocations to the member accounts during our next audit of the plan. We note that the amount of the check did not include interest, as recommended.

MOUNT OLIVER BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	None	\$ 212
2017	\$ 21,676	None
2018	19,165	4,201
2019	17,109	1,460
2020	3,213	20,861
2021	16,966	None

Note: In 2016, the borough met the plan's \$32,506 funding requirement through the deposit of \$32,294 in terminated employee forfeitures and \$212 in employer contributions.

In 2017, the borough met the plan's \$27,729 finding requirement through the deposited of \$21,676 in state aid and \$6,053 in terminated employee forfeitures.

In 2018, the borough met the plan's \$25,120 funding requirement through the deposit of \$19,165 in state aid and \$4,201 in employer contributions and the allocation of \$1,754 in terminated employee forfeitures.

In 2019, the borough met the plan's \$18,620 funding requirement through the deposit of \$17,109 in state aid and \$1,460 in employer contributions and the allocation of \$50 in terminated employee forfeitures.

In 2021, the borough failed to meet the plan's \$27,671 funding requirement by the December 31, 2021 due date. The borough deposited state aid in the amount of \$16,966 into the non-uniformed pension plan checking account but did not allocate the state aid to the members' accounts. See the finding contained in this audit report.

MOUNT OLIVER 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 JoAnna Taylor
Mayor

Ms. Amber McGough
Council President

Mr. Richard Hopkinson
Borough Manager

Ms. Diane C. Holzer
Treasurer

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.