

LIMITED PROCEDURES ENGAGEMENT

Speers Borough Non-Uniformed Pension Plan Washington County, Pennsylvania For the Period January 1, 2012 to December 31, 2015

February 2017



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
Speers Borough
Washington County
Charleroi, PA 15022

We conducted a Limited Procedures Engagement (LPE) of the Speers Borough Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2015 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 findings 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, 2010 to December 31, 2015, 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, 2010 to December 31, 2015, 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 former 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 Speers Borough Non-Uniformed 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 later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

The finding contained in this report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

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

February 22, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Status of Prior Findings	1
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid	2
Potential Withhold of State Aid	4
Summary of Deposited State Aid and Employer Contributions	5
Report Distribution List	6

SPEERS BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Speers Borough has complied with the prior audit recommendation concerning the following:

- Receipt Of State Aid In Excess Of Entitlement

On April 4, 2013, the borough reimbursed \$959 to the Commonwealth for the excess state aid received in 2011.

Partial Compliance With Prior Audit Recommendation

Speers Borough has partially complied with the prior audit recommendation concerning the following:

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

On April 4, 2013, the borough reimbursed \$1,152 to the Commonwealth for the overpayment of state aid received in 2012. However, plan officials failed to file a revised January 1, 2011 actuarial valuation report that would have prevented the municipality from receiving an incorrect allocation of state aid in 2013, as further discussed in the Finding and Recommendation section of this report.

SPEERS BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

Condition: As reported in the prior audit report, actuarial valuation report form 203A, with a valuation date of January 1, 2011, submitted to the former Public Employee Retirement Commission (PERC), contained incorrect information. The borough incorrectly reported municipal contributions of \$7,719 on Line 33 and payroll of \$55,941 on Line 14 when the correct amount of municipal contributions was \$6,612 and the correct payroll amount was \$61,639. These errors resulted in the borough receiving an overpayment of state aid in 2012 in the amount of \$1,152. During the current engagement period, the borough reimbursed \$1,152 to the Commonwealth for the overpayment of state aid received in 2012; however, plan officials failed to file a revised January 1, 2011 actuarial valuation report that would have prevented the municipality from receiving an incorrect allocation of state aid in 2013. The errors on the January 1, 2011 actuarial valuation report resulted in the borough receiving an overpayment of state aid in 2013 in the amount of \$940.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: The discrepancies in the data submitted to the former PERC occurred because plan officials submitted data as of December 31, 2011, as opposed to the required December 31, 2010 data. In addition, a turnover in municipal officials contributed to the borough's failure to ensure full compliance with the prior audit recommendation.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data resulted in the municipality receiving a state aid allocation incorrectly based on a normal cost percentage of 13.798% instead of 10.727%; consequently, based on the incorrect normal cost percentage, the borough received an overpayment of state aid in 2013 in the amount of \$940.

SPEERS BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the state aid overpayment in 2013, in the amount of \$940, plus applicable interest, 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

We also recommend that in the future, plan officials review and verify all information submitted to the Municipal Pension Reporting Program (formerly PERC) so that future actuarial valuation reports properly reflect the status of the pension plan.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the pension plan.

SPEERS BOROUGH NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the borough in the amount of \$940, plus applicable interest. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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, 321 Finance Building, Harrisburg, PA 17120.

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

Year Ended December 31	State Aid	Employer Contributions
2010	\$ 6,470	\$ 142
2011	6,734	None
2012	7,152	2,154
2013	7,769	2,374
2014	7,745	3,006
2015	7,842	3,780

SPEERS 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 William Lee
Mayor

Mr. Curtis Rice
Council President

Ms. Jody Burkholder
Chief Administrative Officer

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.