

# COMPLIANCE AUDIT

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## Ohioville Borough Police Pension Plan Beaver County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

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December 2014



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  
Ohioville Borough  
Beaver County  
Industry, PA 15052

We have conducted a compliance audit of the Ohioville Borough Police Pension Plan for the period January 1, 2012 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2008 to December 31, 2013, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the contractual agreement with the Pennsylvania State Association of Boroughs are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

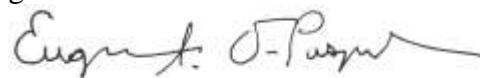
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Ohioville Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 objective.

The results of our tests indicated that, in all significant respects, the Ohioville Borough Police 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 findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Unauthorized Compensation Used To Calculate Pension Contributions

The contents of this report were discussed with officials of Ohioville 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.



EUGENE A. DEPASQUALE  
Auditor General

October 6, 2014

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### ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

## 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.

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 Ohioville Borough Police 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 including, but not limited to, the following:

Act 581 - The Borough Code, Act of February 1, 1966 (P.L. 1656, No. 581), Article XI(f), Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 53 P.S. § 46131 et seq.

The Ohioville Borough Police Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 126, as amended, and a joinder agreement with PSABMRT, dated November 14, 2002, adopted pursuant to Act 581. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1995. Active members are not required to contribute to the plan. The municipality is required to contribute 15 percent of base wages. As of December 31, 2013, the plan had 1 active member, 1 terminated member eligible for vested benefits in the future, and no retirees receiving pension benefits.

OHIOVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: During 2012 and 2013, the Pennsylvania State Police conducted an investigation into the alleged falsification of payroll records by Ohioville Borough's former police chief. Based on their investigation, we have determined that the borough overstated payroll by \$56,722 on the Certification Forms AG 385 filed in the years 2006 through 2013. The data contained on these certification forms is based on prior calendar year information (2005 through 2012).

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: The borough lacked sufficient internal controls to detect that the payroll amounts certified were based on falsified payroll records submitted for payment by the borough's former police chief.

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. The incorrect certification of the \$56,722 of falsified payroll resulted in the allocation of \$8,508 of excess state aid to the borough during the years 2006 to 2013.

Recommendation: We recommend that the total excess state aid, in the amount of \$8,508, 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.

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 audit of the plan.

OHIOVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 - Unauthorized Compensation Used To Calculate Pension Contributions**

Condition: Ohioville Borough maintains a defined contribution pension plan with PSABMRT for its full-time police officers. The plan provides that the municipality will contribute 15 percent of each eligible participant's base pay into an individual member account. An investigation by the Pennsylvania State Police disclosed that the borough's former police chief received \$56,722 of unauthorized compensation, of which \$31,517 was base pay, during the period 2005 through 2012.

Criteria: The plan agreement with PSAB, at Section 1.06, defines compensation, in part, as:

...the basic rate of remuneration paid to the employee by the employer with respect to his personal services as an employee, excluding therefrom any extra or additional forms of remuneration.

The compensation reported to PSABMRT should have only included authorized base compensation attributable to the former police chief's full-time position with the borough for actual hours worked.

Cause: The borough lacked sufficient internal controls to detect that the contributions remitted to the member's account were based on falsified payroll records submitted for payment by the borough's former police chief.

Effect: The \$31,517 of unauthorized base compensation attributable to the former police chief's falsified payroll records was included in the calculation of his annual pension contribution. As a result, the former police chief received excess pension contributions totaling \$4,728, based on the unauthorized base pay received from 2005 to 2012.

Recommendation: We recommend that the \$4,728 of excess pension contributions be withdrawn from the former police chief's account and be reimbursed to the borough. These funds can be utilized to reimburse the Commonwealth for the excess state aid previously received as noted in Finding No. 1.

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

Auditor's Conclusion: Compliance will be subject to verification through our next audit of the plan.

OHIOVILLE BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$8,508. A condition 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, 320 Finance Building, Harrisburg, PA 17120.



OHIOVILLE BOROUGH POLICE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2008	\$ 9,860	\$ 1,511
2009	10,567	155
2010	10,915	1,390
2011	11,304	1,596
2012	10,867	1,691
2013	8,764	None

OHIOVILLE BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Ohioville Borough Police Pension Plan  
Beaver County  
6268 Tuscarawas Road  
Industry, PA 15052

The Honorable Karl Anthony	Mayor
Mr. Robert Ours	Council President
Ms. Connie S. Vincik	Secretary/Treasurer

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).