

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 Glassport Borough Nonuniformed Management 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.

The Glassport Borough Nonuniformed Management Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 753, as amended. Active members are not required to contribute to the plan. The municipality was required to contribute \$60 per week per employee for the period January 1, 2005, to December 31, 2005, \$62 per week per employee for the period January 1, 2006, to December 31, 2006, and \$64 per week per employee for the period January 1, 2007, to December 31, 2007.



The Honorable Mayor and Borough Council
Glassport Borough
Allegheny County
Glassport, PA 15045

We have conducted a compliance audit of the Glassport Borough Nonuniformed Management Pension Plan for the period January 1, 2005, to December 31, 2007. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 audit 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. Glassport 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 an internal control structure to provide reasonable assurance that the Glassport Borough Nonuniformed Management 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 borough's internal control structure as it relates to the borough'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 objectives.

The results of our tests indicated that, in all significant respects, the Glassport Borough Nonuniformed Management 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 – Noncompliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 2 – Allocation Of State Aid In Excess Of Entitlement

Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

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 Glassport Borough and, where appropriate, their responses have been included in the report.

September 24, 2008

JACK WAGNER
Auditor General

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Glassport Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Fully Pay The
Minimum Municipal Obligation Of The Plan

Condition: As disclosed in our prior audit report, municipal officials did not fully pay the minimum municipal obligation (MMO) of the nonuniformed management pension plan for the year 2003, as required by Act 205. Based upon an estimate prepared by this department, the municipality had an unpaid MMO balance of \$208 for the year 2003.

Criteria: With regard to the MMO, Section 303(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 303(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 303(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: Municipal officials have failed to develop adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2003 MMO by the December 31, 2003, deadline, the municipality must add the 2003 MMO balance to the current year's MMO and include interest, as required by Act 205.

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the municipality pay the MMO due to the nonuniformed management pension plan for the year 2003, with interest, in accordance with Section 303(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure the MMO is paid in accordance with Act 205 requirements.

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

Finding No. 2 – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2005, 2006 and 2007, the borough allocated state aid to the nonuniformed management pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
State aid allocation	\$ 8,668	\$ 7,406	\$ 7,406
Less: actual municipal pension costs	(6,240)	(6,912)	(6,856)
Less: excess municipal contributions (See Finding No. 3)	(1,028)	-	-
Excess state aid	<u>\$ 1,400</u>	<u>\$ 494</u>	<u>\$ 550</u>

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 borough does have the option to allocate the excess state aid to its defined benefit pension plan. If this option is not selected, the overpayments of state aid in 2005, 2006 and 2007, in the total amount of \$2,444, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that municipal officials either allocate the \$2,444 of excess state aid 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 allocated to the nonuniformed management pension plan and municipal contributions made to the pension plan with the pension plan's defined contribution pension costs.

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

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Municipal Contributions Made In Excess Of Contributions Required To Fund
The Plan

Condition: The borough made contributions to the nonuniformed management pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Total</u>
Actual municipal contributions made	\$ 1,028	\$ 464	\$ 200	\$ 1,692
Municipal contributions required to fund plan	-	-	-	-
Excess municipal contributions	<u>\$ 1,028</u>	<u>\$ 464</u>	<u>\$ 200</u>	<u>\$ 1,692</u>

Criteria: Section 7 of Ordinance No. 753 states:

The Borough of Glassport shall deposit the same amount as stated in the Union Contract annually commencing 1996 and each year thereafter.

In addition, Article No. 15 of the Union Contract states, in part:

The Employer to provide a pension program under the Western Pennsylvania Teamsters/Employers Pension Fund and effective January 1, 2005, contribute \$60 per week per employee. Effective January 1, 2006, the Employer will contribute \$62 per week per employee. Effective January 1, 2007, the Employer will contribute \$64 per week per employee.

Since state aid allocated to a pension plan must be expended on pension costs, it is the opinion of this department that where municipal contributions and state aid are both deposited into a pension plan, the state aid is expended first to fund pension costs.

Cause: The borough did not have adequate internal control procedures in place to ensure that municipal contributions would not exceed the required contributions outlined in the plan's governing document.

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The municipality allocated funds to the pension plan in excess of the defined contribution rate contained in the plan's governing document. By making excess municipal contributions, plan members could receive additional benefits beyond those outlined in the plan's governing document.

It is the opinion of this department that the borough's failure to withdraw excess municipal contributions made in prior years does not preclude the borough from withdrawing the excess municipal contributions maintained by the pension plan at this time.

Recommendation: We recommend that the borough liquidate the excess municipal contributions maintained by the nonuniformed management pension plan by transferring the assets which represent nonstate aid funds, to the borough's general fund. In addition, any interest income earned on assets to the date of transfer should also be transferred to the general fund.

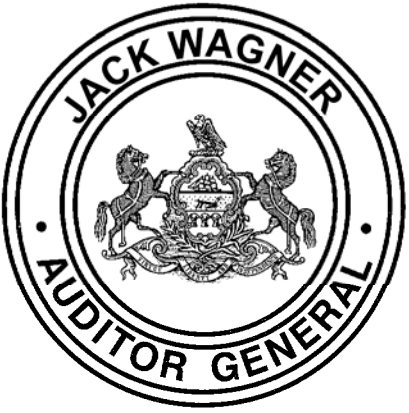
Furthermore, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed management pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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

GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF STATE AID
 AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 6,366	None
2003	6,366	None
2004	6,782	None
2005	8,668	\$ 1,028
2006	7,406	464
2007	7,406	200



GLASSPORT BOROUGH NONUNIFORMED MANAGEMENT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Glassport Borough Nonuniformed Management Pension Plan
Allegheny County
440 Monongahela Avenue
Glassport, PA 15045

The Honorable Terry DiMarco	Mayor
Mr. John Desue	Council President
Ms. Nancy Piazza-Whaby	Secretary

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.