

GLASSPORT BOROUGH NONUNIFORMED UNION PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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ABBREVIATION

ERISA - Employee Retirement Income Security Act

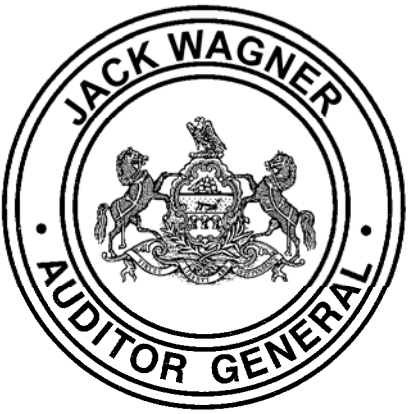
BACKGROUND

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 Union 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.

As further described in the Letter from the Auditor General included in this report, the borough's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Plan. The plan is affected by the provisions of collective bargaining agreements between the borough and its nonuniformed union employees. 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 Union 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 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. The borough's nonuniformed union employees participate in the Western Pennsylvania Teamsters and Employers Pension Plan, a Taft-Hartley Act collectively bargained, jointly trustee, multi-employer pension plan, which is governed primarily by the Federal Employee Retirement Income Security Act of 1974 (ERISA). ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans subject to its provisions. Accordingly, the scope of our audit was restricted to the activities of the Glassport Borough Nonuniformed Union Pension Plan and did not extend to the activities of the multi-employer pension plan.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Glassport Borough Nonuniformed Union 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 objective.

The results of our tests indicated that, in all significant respects, the Glassport Borough Nonuniformed Union 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 – Allocation Of State Aid In Excess Of Entitlement

Finding No. 2 – 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 UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Allocation Of State Aid In Excess Of Entitlement

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

State aid allocation	\$ 26,624
Less: Actual municipal pension costs	<u>(25,416)</u>
Excess state aid	<u>\$ 1,208</u>

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 overpayment of state aid in 2007, in the total amount of \$1,208, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that municipal officials either allocate the \$1,208 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.

GLASSPORT BOROUGH NONUNIFORMED UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed union 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.

Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to the nonuniformed union 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 pension costs	\$ 28,172	\$ 25,482	\$ 25,416	\$ 79,070
State aid allocated	<u>(27,144)</u>	<u>(23,285)</u>	<u>(26,624)</u>	<u>(77,053)</u>
Municipal contributions required to fund plan	<u>\$ 1,028</u>	<u>\$ 2,197</u>	<u>\$ -</u>	<u>\$ 3,225</u>
Actual municipal contributions made	\$ 4,121	\$ 15,751	\$ 200	\$ 20,072
Municipal contributions required to fund plan	<u>(1,028)</u>	<u>(2,197)</u>	<u>-</u>	<u>(3,225)</u>
Excess municipal contributions	<u>\$ 3,093</u>	<u>\$ 13,554</u>	<u>\$ 200</u>	<u>\$ 16,847</u>

Criteria: 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. . . .

GLASSPORT BOROUGH NONUNIFORMED UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Effect: As a result of the borough making contributions to the nonuniformed union pension plan in excess of contributions required to fund the pension plan, at December 31, 2007, an unallocated reserve fund in the amount of \$19,017 was generated, as illustrated below:

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Unallocated reserve fund at January 1	\$ -	\$ 3,194	\$ 16,995
Excess municipal contributions	3,093	13,554	200
Excess state aid allocation	-	-	1,208
Interest earned on reserve funds	<u>101</u>	<u>247</u>	<u>614</u>
Unallocated reserve fund at December 31	<u>\$ 3,194</u>	<u>\$ 16,995</u>	<u>\$ 19,017</u>

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 municipal contributions maintained in the unallocated reserve fund at this time.

GLASSPORT BOROUGH NONUNIFORMED UNION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the borough liquidate the unallocated reserve fund maintained by the nonuniformed union pension plan by transferring the excess state aid allocation made in 2007 (See Finding No. 1) to its defined benefit pension plan and transferring the assets which represent nonstate aid funds, to the borough's general fund. In addition, any interest income earned on assets held in the reserve fund to the date of transfer should also be transferred to the general fund.

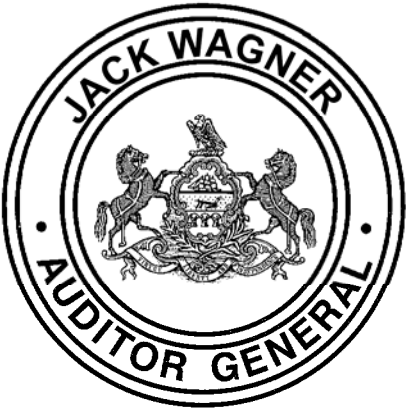
We also recommend that, in the future, plan officials reconcile the amount of state aid allocated to the nonuniformed union pension plan and municipal contributions made to the pension plan with the pension plan's annual defined contribution pension costs.

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

GLASSPORT BOROUGH NONUNIFORMED UNION PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 9,176	\$ 16,096
2003	9,902	16,306
2004	9,876	16,166
2005	27,144	4,121
2006	23,285	15,751
2007	26,624	200



GLASSPORT BOROUGH NONUNIFORMED UNION 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 Union 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.