



**MCKEES ROCKS BOROUGH NONUNIFORMED  
UNION PENSION PLAN**

**ALLEGHENY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





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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 McKees Rocks 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 Laborers' District Council of Western Pennsylvania Pension Plan. The McKees Rocks Borough Nonuniformed Union Pension Plan is locally controlled 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 \$2.11 per hour worked for public works employees and \$1.66 per hour worked for clerical employees for the years 2009 and 2010; and \$2.36 per hour worked for public works employees and \$1.86 per hour worked for clerical employees for the year 2011.







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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
McKees Rocks Borough  
Allegheny County  
McKees Rocks, PA 15136

We have conducted a compliance audit of the McKees Rocks Borough Nonuniformed Union Pension Plan for the period January 1, 2009, to December 31, 2011. 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 our 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 findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- 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 provisions of the union pension plan agreement are in accordance with the plan's governing document and the collective bargaining agreement and that payments made to the multi-employer union pension plan are made in accordance with the collective bargaining agreement.
- Whether transfers were properly authorized, accurate, timely and properly recorded.

The borough's nonuniformed union employees participate in the Laborers' District Council of Western Pennsylvania 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 McKees Rocks 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 effective internal controls to provide reasonable assurance that the McKees Rocks Borough Nonuniformed Union 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 objectives, 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 objectives.

The results of our tests indicated that, in all significant respects, the McKees Rocks 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 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 accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of McKees Rocks Borough and, where appropriate, their responses have been included in the report.



January 18, 2013

EUGENE A. DEPASQUALE  
Auditor General



MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

McKees Rocks Borough has complied with the prior audit recommendations concerning the following:

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials transferred \$15,122 to the police pension plan representing excess state aid allocated to the nonuniformed pension plans in 2006 and 2008; and

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current audit period, municipal officials established adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

Partial Compliance With Prior Audit Recommendation

McKees Rocks 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

Municipal officials reimbursed \$2,409 to the Commonwealth for the overpayment of state aid received in 2008; however, the incorrect data certified on the January 1, 2007, actuarial valuation report also resulted in an overpayment of state aid in 2009, as further discussed in the Finding and Recommendation section of this report.

MCKEES ROCKS BOROUGH NONUNIFORMED UNION 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 disclosed in the prior audit report, the borough understated the plan’s annual payroll on the actuarial valuation report form 203A, with a valuation date of January 1, 2007, which resulted in an overpayment of state aid received by the borough in 2008. During the current audit period, the borough reimbursed \$2,409 to the Commonwealth for the overpayment of state aid received; however, the incorrect data certified on the January 1, 2007, actuarial valuation report also resulted in an overpayment of state aid to the borough in 2009 which must be reimbursed to the Commonwealth.

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: Borough officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: Because the municipality’s state aid allocations are 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 for the year 2009 incorrectly based on a normal cost percentage of 12.52% instead of 11.21%, this resulted in the borough receiving an excess state aid allocation in the amount of \$2,360.

Recommendation: We recommend that the total excess state aid, in the amount of \$2,360, 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

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

MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
FINDING AND RECOMMENDATION

MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 14,735	None
2007	15,890	None
2008	14,123	None
2009	20,118	None
2010	19,500	\$ 3,135
2011	21,993	None





MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

McKees Rocks Borough Nonuniformed Union Pension Plan  
Allegheny County  
340 Bell Avenue  
McKees Rocks, PA 15136

The Honorable John R. Muhr	Mayor
Mr. Keith Schwab	Council President
Ms. Tricia Levander	Borough 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](http://www.auditorgen.state.pa.us).