

**MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN**

**ALLEGHENY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





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## CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Background.....   | 1           |
| Letter from the Auditor General .....   | 3           |
| Status of Prior Finding.....  | 5           |
| Findings and Recommendations:   |             |
| Finding No. 1 – Incorrect Data Certified On Actuarial Valuation Report Resulting In<br>An Overpayment Of State Aid..... | 6           |
| Finding No. 2 – Allocation Of State Aid In Excess Of Entitlement .....  | 7           |
| Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An<br>Underpayment Of State Aid.....           | 8           |
| Supplementary Information .....   | 10          |
| Report Distribution List .....  | 11          |



## **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 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 \$1.81 per hour worked for public works employees and \$1.36 per hour worked for clerical employees for the year 2006, \$1.91 per hour worked for public works employees and \$1.46 per hour worked for clerical employees for the year 2007, and \$2.01 per hour worked for public works employees and \$1.56 per hour worked for clerical employees for the year 2008.





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, 2006, to December 31, 2008. 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. 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 an internal control structure 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. 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 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 findings further discussed later in this report:

Finding No. 1 – Incorrect Data Certified On Actuarial Valuation Report  
Resulting In An Overpayment Of State Aid

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

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In  
An Underpayment Of State Aid

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

April 3, 2009

JACK WAGNER  
Auditor General

MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Allocation Of State Aid In Excess Of Entitlement

Municipal officials transferred \$20,130 of excess state aid allocated to the nonuniformed union pension plan in 2004 and 2005 to its police pension plan.

MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

Condition: Actuarial valuation report form 203A, for the nonuniformed union pension plan, with a valuation date of January 1, 2007, submitted to PERC, contained incorrect information. The borough incorrectly reported \$99,553 of annual payroll on Line 14 when the actual amount of annual payroll was \$116,639.

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 the accuracy of the data certified.

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 2008 incorrectly based on a normal cost percentage of 12.519920%, instead of 11.204957%. As a result, the borough received an excess state aid allocation in 2008 in the amount of \$2,373.

Furthermore, the submission of incorrect data on the January 1, 2007, actuarial valuation report could result in the receipt of an excess state aid allocation in 2009.

MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$2,373, 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. 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 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.

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

Condition: In 2006 and 2008, the borough allocated state aid to the nonuniformed union pension plan in excess of the plan’s defined contribution pension costs, as illustrated below:

|   | <u>2006</u> | <u>2008</u> |
|---|-------------|-------------|
| State aid allocation                              | \$ 15,838   | \$ 30,515   |
| Actual defined contribution pension costs         | (14,735)    | (14,123)    |
| Amount due to Commonwealth<br>(See Finding No. 1) | -           | (2,373)     |
| Excess state aid allocation                       | \$ 1,103    | \$ 14,019   |

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.

MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 police pension plan. If this option is not selected, the overpayments of state aid in 2006 and 2008, in the total amount of \$15,122, must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that municipal officials either allocate the \$15,122 of excess state aid to its defined benefit police 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 union pension plan with the pension plan’s actual defined contribution pension costs.

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

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify 1 eligible nonuniformed union employee and understated payroll by \$28,179 in 2007 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

MCKEES ROCKS BOROUGH NONUNIFORMED UNION PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Since the municipality’s state aid allocation was based on pension costs, the effect of the incorrect certification of pension data on the municipality’s state aid allocation is identified below:

| <u>Normal<br/>Cost</u> | <u>Payroll<br/>Understated</u> | <u>State Aid<br/>Underpayment</u> |
|------------------------|--------------------------------|-----------------------------------|
| 15.85617%              | \$ 28,179                      | \$ 4,468                          |

Although the municipality will be reimbursed for the underpayment of state aid due to the municipality’s certification error, the full amount of the 2007 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension plan data.

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

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 |
|------------------------|---------------------|------------------------|
| 2003                   | \$ 15,957           | \$ 3,845               |
| 2004                   | 17,671              | None                   |
| 2005                   | 11,807              | 61                     |
| 2006                   | 15,838              | None                   |
| 2007                   | 16,046              | 2,370                  |
| 2008                   | 30,515              | None                   |



MCKEES ROCKS 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

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

|                            |                   |
|----------------------------|-------------------|
| The Honorable John R. Muhr | Mayor             |
| Mr. John Ciangiarulo, Jr.  | Council President |
| Mr. William C. Beck        | 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).