

PORT VUE BOROUGH NONUNIFORMED UNION PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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ABBREVIATION

PERC - Public Employee Retirement Commission

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 Port Vue 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 Port Vue Borough Nonuniformed Union Pension Plan is locally controlled by the provisions of Ordinance No. 284. The plan is also 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 \$67 per week worked per employee for the year 2008 and \$70 per week worked per employee for the years 2009 and 2010.



The Honorable Mayor and Borough Council
Port Vue Borough
Allegheny County
Port Vue, PA 15133

We have conducted a compliance audit of the Port Vue Borough Nonuniformed Union Pension Plan for the period January 1, 2008, to December 31, 2010. 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 Port Vue 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 Port Vue 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 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 the extent necessary to satisfy the audit objective.

The results of our tests indicated that, in all significant respects, the Port Vue 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 – Late Filing And Incorrect Data Certified On Actuarial Valuation
Report Resulting In An Overpayment Of State Aid

We also noted a matter that has been included in the following observation further discussed later in this report:

Observation – Absence Of Measures Necessary To Ensure An Effective
Transition Of Duties

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

January 26, 2012

JACK WAGNER
Auditor General

PORT VUE BOROUGH NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Late Filing And 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, 2009, was not submitted to the Public Employee Retirement Commission (PERC) by the March 31, 2010, deadline, as required by Act 205. The actuarial valuation report was not filed with PERC until August 16, 2010. In addition, the actuarial valuation report reported municipal contributions in the amount of \$25,076, when the actual amount of municipal contributions was \$12,730.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, 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.

PORT VUE BOROUGH NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Finally, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's actuarial valuation report was filed timely and accurately.

Effect: Due to the late filing of the January 1, 2009, actuarial valuation report, the borough's 2010 state aid allocation, which was due to be received by October 1, 2010, was withheld until December of 2010.

The borough received state aid allocations of \$37,757 and \$47,032 for the years 2010 and 2011, respectively. However, had the correct data been included in the actuarial valuation report, the borough would have been entitled to state aid allocations in the amounts of \$27,386 and \$35,351 for the years 2010 and 2011, respectively. Therefore, the borough received overpayments of state aid in the amounts of \$10,371 and \$11,681 for the years 2010 and 2011, respectively.

Recommendation: We recommend that the total excess state aid, in the amount of \$22,052, 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.

We also recommend that plan officials review and verify all information submitted to PERC so that future actuarial valuation reports properly reflect the status of the pension plan.

In addition, to ensure that future actuarial filing deadlines are met in a timely manner and to improve pension plan administration, we recommend that plan officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing deadline.

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

PORT VUE BOROUGH NONUNIFORMED UNION PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the borough in the amount of \$22,052. A condition of this nature may lead to a total withholding of state aid in the future unless the 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

PORT VUE BOROUGH NONUNIFORMED UNION PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2005	\$ 10,257	\$ 1,807
2006	12,126	562
2007	11,829	1,483
2008	12,394	336
2009	12,566	2,274
2010	12,633	None

PORT VUE BOROUGH NONUNIFORMED UNION PENSION PLAN
OBSERVATION

Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

Plan officials have not prepared management guidelines which describe the duties and responsibilities of municipal and plan officials in the operation of the nonuniformed union pension plan.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected and/or delayed and investment opportunities may be lost.

The borough should consider preparing a written operations manual which describes, in detail, the duties of municipal and plan officials responsible for the administration of the pension plan. This manual should be kept on file with other important plan documents.



PORT VUE BOROUGH NONUNIFORMED UNION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Port Vue Borough Nonuniformed Union Pension Plan
Allegheny County
1191 Romine Avenue
Port Vue, PA 15133

The Honorable Brien A. Hranics	Mayor
Mr. Mark D. Tortorice	Council President
Ms. Joan E. Winters	Borough Manager

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.