



**SPEERS BOROUGH NONUNIFORMED  
PENSION PLAN**

**WASHINGTON 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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### ABBREVIATIONS

ERISA - Employee Retirement Income Security Act

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 Speers Borough Nonuniformed 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 & Employers Pension Fund. The Speers Borough Nonuniformed Pension Plan is locally controlled by the provisions of Ordinance No. 308. The plan is also affected by the provisions of collective bargaining agreements between the borough and its nonuniformed employees. Active members are not required to contribute to the plan. The municipality was required to contribute \$75 per week per member through June 2010. Effective July 1, 2010, the municipality was required to contribute \$79.50 per week per member through June 2011. Effective July 1, 2011, the municipality was required to contribute \$84.27 per week per member.







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

The Honorable Mayor and Borough Council  
Speers Borough  
Washington County  
Charleroi, PA 15022

We have conducted a compliance audit of the Speers Borough Nonuniformed 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 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. 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 terms of the allocated insurance contract, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.
- 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.

The borough's nonuniformed union employees participate in the Western Pennsylvania Teamsters & Employers Pension Fund, 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 Speers Borough Nonuniformed 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 Speers Borough Nonuniformed 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 Speers Borough Nonuniformed 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:

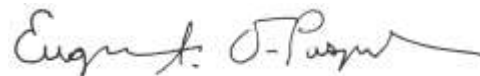
Finding No. 1 – Receipt Of State Aid In Excess Of Entitlement

Finding No. 2 – 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 Speers Borough and, where appropriate, their responses have been included in the report.

February 28, 2013



EUGENE A. DEPASQUALE  
Auditor General



SPEERS BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Improper Ownership Of Allocated Insurance Contract

The borough was unable to transfer the ownership of the insurance contract back to the Speers Borough Nonuniformed Pension Plan. However, the plan member officially retired in September of 2010 and became eligible to receive the proceeds from the insurance contract in question.

SPEERS BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

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

Condition: The borough received state aid in excess of the nonuniformed pension plan’s defined contribution pension costs in the year 2011, as illustrated below:

State aid allocation	\$ 6,734
Actual municipal pension costs	<u>(5,775)</u>
Excess state aid	<u>\$ 959</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 plans 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 failed to establish adequate internal control procedures to reconcile the borough’s state aid allocation with the plan’s actual 2011 defined contribution pension costs.

Effect: It is this department’s opinion that because 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. Consequently, the overpayment of state aid in the year 2011 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the municipality return the \$959 of excess state aid received in the year 2011 to the Commonwealth from the nonuniformed pension plan. 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, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with evidence of payment.

SPEERS BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we recommend that in the future, plan officials reconcile the borough's annual state aid allocation and municipal contributions made to the pension plan with the plan's annual defined contribution pension costs and reimburse any excess state aid received to the Commonwealth.

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

Finding No. 2 – Incorrect Data Certified On Actuarial Valuation Report Resulting In An Overpayment Of State Aid

Condition: Actuarial valuation report form 203A, with a valuation date of January 1, 2011, submitted to the Public Employee Retirement Commission (PERC), contained incorrect information. The borough incorrectly reported municipal contributions of \$7,719 on Line 33 and payroll of \$55,941 on Line 14 when the correct amount of municipal contributions was \$6,612 and the correct payroll amount was \$61,639. These errors resulted in the borough receiving an overpayment of state aid in 2012 in the amount of \$1,152.

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: The discrepancies in the data submitted to PERC occurred because plan officials submitted data as of December 31, 2011, as opposed to the required December 31, 2010 data.

SPEERS BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Because the municipality's state aid allocation is 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 incorrectly based on a normal cost percentage of 13.798% instead of 10.727%; consequently, based on the incorrect normal cost percentage, the borough received an overpayment of state aid in the amount of \$1,152.

Recommendation: We recommend that the total excess state aid, in the amount of \$1,152, 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.

In addition, we recommend that plan officials contact PERC to determine if a revised actuarial valuation report may be filed to prevent the municipality from receiving an incorrect allocation of state aid in 2013. If a revised report is prepared and accepted by PERC, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

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 this finding without exception.



SPEERS BOROUGH NONUNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding Nos. 1 and 2 contained in this audit report cite overpayments of state aid to the borough in the total amount of \$2,111. Conditions of this nature may lead to a total withholding of state aid in the future unless those findings are 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.

SPEERS BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF STATE AID  
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2006	\$ 5,786	\$ 974
2007	5,992	1,288
2008	6,373	1,427
2009	6,256	1,694
2010	6,470	142
2011	6,734	None

SPEERS BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Speers Borough Nonuniformed Pension Plan  
Washington County  
300 Phillips Street  
Charleroi, PA 15022

The Honorable William Lee	Mayor
Mr. Roger Grandy	Council President
Ms. Helen T. Cunningham	Chief Administrative Officer

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).