

TRAFFORD BOROUGH NONUNIFORMED PENSION PLAN

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



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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 Trafford 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.

The Trafford Borough Nonuniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Chapter 35 of the Borough of Trafford Code, as amended. Active members are not required to contribute to the plan. The municipality is required to annually contribute \$2,500 per employee.



The Honorable Mayor and Borough Council
Trafford Borough
Westmoreland County
Trafford, PA 15085

We have conducted a compliance audit of the Trafford Borough Nonuniformed Pension Plan for the period January 1, 2006, 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 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. Trafford Borough contracted with an independent certified public accounting firm for an audit of its financial statements for the year 2006, prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Trafford Borough Nonuniformed 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 Trafford 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation –
Unauthorized Defined Contribution Provision

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

February 9, 2009

JACK WAGNER
Auditor General

TRAFFORD BOROUGH NONUNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Trafford Borough has complied with the prior audit recommendations concerning the following:

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

The borough reimbursed \$11,913 to the Commonwealth for the overpayment of state aid received in 2005;

- Allocation Of State Aid In Excess Of Entitlement

The borough authorized a transfer of \$3,130 from the borough's nonuniformed pension plan to the borough's police pension plan. This amount represented the excess state aid allocated to the nonuniformed pension plan in 2004; and

- Failure To Prepare Allocation Reports For Members' Accounts

The borough hired a pension plan consultant to prepare annual allocation reports for the members of the nonuniformed pension plan.

Noncompliance With Prior Audit Recommendation

Trafford Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Unauthorized Defined Contribution Provision

TRAFFORD BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Unauthorized Defined Contribution Provision

Condition: As disclosed in our prior audit report, the plan’s governing document contains an unauthorized defined contribution provision.

A resolution dated May 14, 2002, at Section 2, states:

The State Aid Pension Funds received from the Commonwealth of Pennsylvania, Department of The Auditor General, pursuant to the provisions of Act 205 of 1984, are herewith formally designated to be distributed to the following designated pension plans existing in the Borough of Trafford in the amount set forth below:

- Currently there is no financial obligation associated with the Police Pension Plan; and
- The amount to be allocated to the Non-Uniform Service Employees Pension Plan for Said Aid is a minimum of \$2,500 per employee (Emphasis added).

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.

The borough files actuarial valuation report form 203A for the nonuniformed pension plan with the Public Employee Retirement Commission identifying the plan as a defined contribution plan.

Section 102 of Act 205 defines a defined contribution plan, as follows:

A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for the periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member (Emphasis added).

TRAFFORD BOROUGH NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Accordingly, Section V, B, of the actuarial valuation report form 203A provides for reporting a defined contribution rate either at a specified percentage of payroll or as a specified flat dollar amount. No other types of reporting are provided for defined contribution pension plans.

Cause: Municipal officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The plan's defined contribution provision is not in accordance with Act 205 provisions. In addition, the accounts of individual members could be overfunded due to the establishment of an unauthorized defined contribution rate.

Recommendation: We again recommend that the borough amend the plan's governing document to specify the plan's defined contribution rate as a specified percentage of payroll or as a specified flat dollar amount, with no discretionary employer contributions.

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

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SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2002	\$ 13,290	None
2003	2,031	\$ 10,469
2004	5,000	None
2005	5,000	None
2006	1,962	5,538
2007	None	7,500

TRAFFORD BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Trafford Borough Nonuniformed Pension Plan
Westmoreland County
414 Brinton Avenue
Trafford, PA 15085

The Honorable Kevin Karazsia	Mayor
Ms. Rita Windsor	Council President
Ms. Lisa Mallik	Borough Administrator

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.