

SPEERS BOROUGH NONUNIFORMED UNION PENSION PLAN

WASHINGTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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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 Speers 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 & Employers Pension Fund. The Speers Borough Nonuniformed Union 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 union employees. Active members are not required to contribute to the plan. The municipality was required to contribute \$65 per week per member through June 30, 2007. Effective July 1, 2007, the municipality is required to contribute \$75 per week per member.



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

We have conducted a compliance audit of the Speers 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 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 & 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 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 Speers 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 objective.

The results of our tests indicated that, in all significant respects, the Speers 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 – Improper Ownership Of Allocated Insurance Contract

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

June 9, 2009

JACK WAGNER
Auditor General

SPEERS BOROUGH NONUNIFORMED UNION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper Ownership Of Allocated Insurance Contract

Condition: An allocated insurance contract that has been purchased for the benefit of a plan member improperly designates the individual plan member as the owner of the contract.

Criteria: Since the premiums on this contract have been paid with state aid allocations and municipal funds, the municipality should maintain ownership of this contract to ensure that it is properly safeguarded.

Cause: Plan officials were unaware that the municipality should maintain ownership of the allocated insurance contract.

Effect: Continued improper ownership of this contract could result in an unauthorized disposition of the proceeds to the plan member prior to his obtaining eligibility to receive pension benefits.

Recommendation: We recommend that plan officials contact the insurance company to see if the ownership of the allocated insurance contract can be changed to the Speers Borough Nonuniformed Union Pension Plan without a penalty to the plan member. If this cannot be accomplished, we recommend that the municipality implement adequate internal control procedures to ensure that the proceeds from the allocated insurance contract are not surrendered to the plan member prior to his eligibility to receive benefits from the pension plan.

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

SPEERS 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	\$ 4,864	\$ 825
2004	2,911	550
2005	2,927	3,930
2006	5,786	974
2007	5,992	1,288
2008	6,373	1,427

SPEERS 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

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

The Honorable William Lee	Mayor
Mr. Roger Grandy	Council President
Ms. Helen Cunningham	Secretary/Treasurer

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.