

COMPLIANCE AUDIT

North Charleroi Borough Non-Uniformed Pension Plan Washington County, Pennsylvania For the Period January 1, 2017 to December 31, 2021

November 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

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

We have conducted a compliance audit of the North Charleroi Borough Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit. State aid allocations that were deposited into the pension plan for the years ended December 31, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation. Employer contributions that were deposited into the pension plan for the years ended December 31, 2016 to December 31, 2021, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for plan members who retired and received a lump-sum distributions during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the North Charleroi Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 objective.

The results of our procedures indicated that, in all significant respects, the North Charleroi Borough Non-Uniformed 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 – Failure To Maintain An Adequate Record-Keeping System

The contents of this report were discussed with officials of North Charleroi Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
November 9, 2022

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 North Charleroi Borough Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The North Charleroi Borough Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of an ordinance dated May 20, 1996, and joinder agreement with PSABMRT. The plan was established January 1, 1996. Active members are not required to contribute to the plan. The municipality is required to contribute \$1,000 per member per year. As of December 31, 2021, the plan had one active member, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

NORTH CHARLEROI BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Maintain An Adequate Record-Keeping System

Condition: The pension plan’s record-keeping system did not provide effective control over assets, revenues, and expenses and does not meet the minimum requirements of financial records necessary to allow management to maintain effective awareness of and control over the activity of the plan. The deficiencies are as follows:

- Payroll documentation was not maintained for the year 2018;
- Annual financial statements, plan reconciliations and custodial statements could not be produced by municipal officials and had to be obtained from the pension plan consultant;
- Calculations for the distribution of lump sum pension benefits could not be produced by the municipality and had to be obtained by the pension plan consultant; and
- The January 1, 2017 actuarial valuation report could not be produced by the municipality and had to be obtained from the Department of Community and Economic Development’s Municipal Statistics website.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities. In addition, there was turnover in municipal officials tasked with administration of the pension plan. Currently, the borough solicitor is tasked with the administration of the daily operations of the pension plan.

Effect: Although we were able to obtain copies from third-party sources in order to complete our audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan’s financial operations. The borough potentially missed out on additional state aid by not being able to provide the 2018 W-2 payroll information for a plan member who may have been eligible for certification.

Recommendation: We recommend that plan officials establish accounting procedures, including record-keeping procedures, necessary to allow management to maintain effective awareness of and control over the activity of the plan. Plan officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting procedures.

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

Auditor’s Conclusion: Compliance will be evaluated during the next audit of the plan.

NORTH CHARLEROI BOROUGH NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 2,371	\$ 1,318
2017	2,379	2,132
2018	2,091	2,436
2019	1,050	2,461
2020	3,114	1,103
2021	2,079	1,431

NORTH CHARLEROI BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Steve Hega
Mayor

Ms. Carrie Zeletski
Council President

Ms. Christine Cardinale
Secretary

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.