

COMPLIANCE AUDIT

Steel Rivers Council of Governments Non-Uniformed Pension Plan

Allegheny County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2019

April 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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Steel Rivers Council of Governments
Allegheny County
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We have conducted a compliance audit of the Steel Rivers Council of Governments Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2019. 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.

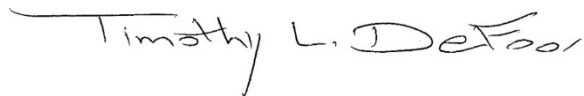
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the council's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all active employees employed during the audit period amounting to \$10,566, \$9,259, \$9,620, and \$10,387, for the years 2016, 2017, 2018, and 2019, respectively, made during the audit period.
- We determined whether retirement benefits calculated for plan members who elected to retire, vest and separated employment, and received lump-sum distributions during the current audit period, and through the completion of our fieldwork procedures, 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 and payable to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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.

Council officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Steel Rivers Council of Governments 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 Steel Rivers Council of Governments 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 – Receipt Of State Aid In Excess Of Entitlement

The contents of this report were discussed with officials of the Steel Rivers Council of Governments and, where appropriate, their responses have been included in the report. We would like to thank council 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

March 25, 2021

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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.

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 Steel Rivers Council of Governments 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 Steel Rivers Council of Governments Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 4-86, dated May 1, 1986, and a separately executed plan document, effective January 1, 2003. The plan was established July 16, 1985. Active members are required to contribute 3 percent of compensation to the plan. The council is required to contribute 8 percent of compensation to the plan. As of December 31, 2019, the plan had 5 active members, and 1 terminated member eligible for vested benefits in the future.

STEEL RIVERS COUNCIL OF GOVERNMENTS NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Receipt Of State Aid In Excess Of Entitlement

Condition: The Steel Rivers Council of Governments received state aid in excess of the non-uniformed pension plan’s defined contribution pension costs in the year 2020, as illustrated below:

State aid allocation	\$ 27,698
Actual municipal pension costs	<u>(27,170)</u>
Excess state aid	<u>\$ 528</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 timely reconcile the council of governments’ state aid allocation with the plan’s actual defined contribution pension cost.

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 2020 must be returned to the Commonwealth for redistribution.

Recommendation: We recommend that the council return the \$528 of excess state aid received in the year 2020 to the Commonwealth from the non-uniformed 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with evidence of payment.

STEEL RIVERS COUNCIL OF GOVERNMENTS NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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

Management's Response: Council officials agreed with the finding without exception. On March 2, 2021, the Steel Rivers Council of Governments reimbursed \$531 to the Commonwealth for the excess state aid received in 2020.

Auditor's Conclusion: Based on the management response, it appears that council officials have complied with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

STEEL RIVERS COUNCIL OF GOVERNMENTS NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2014	\$ 15,491	\$ 3,575
2015	20,578	778
2016	28,922	None
2017	26,940	None
2018	23,523	1,487
2019	23,833	4,615

STEEL RIVERS COUNCIL OF GOVERNMENTS NON-UNIFORMED PENSION PLAN
COMMENT

The Steel Valley Council of Governments (SVCOG) General Assembly at its meeting on December 4, 2014, adopted Resolution No. 5-2014 which formally approved and authorized a Merger Agreement with the Twin Rivers Council of Governments (TRCOG) effective October 1, 2015. The SVCOG amended its Articles of Incorporation to change the name of the entity to the Steel Rivers Council of Governments (SRCOG). After the merger date, all former SVCOG and TRCOG employees became employees of SRCOG. Also, all assets and liabilities of TRCOG and SVCOG became the assets and liabilities of the SRCOG. The pension plan account's name officially changed from SVCOG to SRCOG effective February 1, 2016.

STEEL RIVERS COUNCIL OF GOVERNMENTS NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. An Lewis
Executive Director

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.