

# COMPLIANCE AUDIT

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## Millvale Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

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November 2023



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  
Millvale Borough  
Allegheny County  
Millvale, PA 15209

We have conducted a compliance audit of the Millvale Borough Police Pension Plan for the period January 1, 2019 to December 31, 2022. 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 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 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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.
- 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.
- We determined that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for plan members who retired and the plan member who elected to vest 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 or payable to the recipients.
- We determined whether the January 1, 2021, actuarial valuation report was prepared and submitted by March 31, 2022, in accordance with Act 205 and whether selected information provided on this report 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.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period.

Millvale Borough contracted with an independent certified public accounting firm for annual audits of its financial statements 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 effective internal controls to provide reasonable assurance that the Millvale Borough Police 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 objectives.

The results of our procedures indicated that, in all significant respects, the Millvale Borough Police 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:

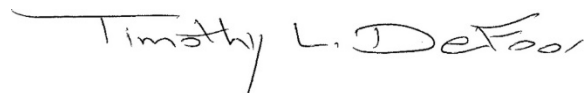
Finding No. 1 – Noncompliance With Prior Recommendation – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

Finding No. 2 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this audit report.

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



Timothy L. DeFoor  
Auditor General  
October 31, 2023

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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 two 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 Millvale Borough Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Millvale Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2438, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established November 13, 1958. Active members are required to contribute five percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2022, the plan had seven active members, four terminated members eligible for vested benefits in the future, and three retirees receiving pension benefits.

MILLVALE BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Millvale Borough has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan

MILLVALE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Noncompliance With Prior Recommendation – Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan**

Condition: As disclosed in the prior audit, the municipality again failed to deposit the full amount of its 2019 state aid allocation into an eligible pension plan. The municipality received its 2019 state aid allocation in the amount of \$107,530 on September 18, 2019, but, as of the date of this report, only state aid totaling \$101,726 was deposited into an eligible pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the pension plans.

Cause: The full amount of the 2019 state aid was not deposited into an eligible pension plan because internal controls were not in effect to ensure the timely deposit of the full amount of state aid. Additionally, the borough lacked adequate procedures to ensure adherence with the prior recommendation.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to fund benefits, pay operating expenses or for investment and the risk of misapplication is increased.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality deposit the borough's outstanding 2019 state aid allocation of \$5,804, plus interest earned during the period beyond the 30 days grace period allowed by Act 205 into an eligible pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

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

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



MILLVALE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan**

Condition: The municipality did not timely pay the 2021 minimum municipal obligation (MMO) that was due to the police pension plan by December 31, 2021, as required by Act 205. Although the municipality deposited \$31,889 into the plan on April 29, 2022 for the 2021 MMO, the municipality failed to pay the interest due on the late deposit in accordance with provisions of Act 205.

Criteria: Section 302(e) of Act 205 states:

Interest penalty on omitted municipal contributions. Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly

Cause: The borough failed to implement adequate procedures to ensure the plan's 2021 MMO due was paid timely and/or calculate interest due on the late payment in accordance with Section 302(e) of Act 205.

Effect: The failure to timely pay the MMO resulted in the plan not having available resources to meet its current funding obligation required under Act 205. In addition, the municipality must now calculate and deposit the interest due on the late payment as prescribed by Act 205.

Recommendation: We recommend that the municipality calculate and deposit the interest due to the police pension plan for the untimely payment of the 2021 MMO in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next engagement of the plan.

We also recommend that plan officials implement adequate internal control procedures to ensure that future MMOs are consistently paid timely in accordance with Act 205 requirements.

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

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

MILLVALE BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A repeat condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

MILLVALE BOROUGH POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan’s funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2017, is as follows:

|                          | (1)                           | (2)                                       | (3)  | (4)                  |
|--------------------------|-------------------------------|---|--|----------------------|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Liability (b) - (a) | Funded Ratio (a)/(b) |
| 01-01-17                 | \$ 1,284,613                  | \$ 1,097,910                              | \$ (186,703)   | 117.0%               |
| 01-01-19                 | 1,375,795                     | 1,119,773                                 | (256,022)  | 122.9%               |
| 01-01-21                 | 1,540,864                     | 1,436,675                                 | (104,189)  | 107.3%               |

Note: The market values of the plan’s assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

MILLVALE BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

MILLVALE BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2017                   | \$ 32,872                    | 100%                   |
| 2018                   | 26,625                       | 100%                   |
| 2019                   | 31,218                       | 100%                   |
| 2020                   | 40,319                       | 100%                   |
| 2021                   | 31,889                       | 100%                   |
| 2022                   | 49,344                       | 100%                   |

MILLVALE BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

|                               |                              |
|-------------------------------|------------------------------|
| Actuarial valuation date      | January 1, 2021              |
| Actuarial cost method         | Entry age normal             |
| Amortization method           | Not applicable               |
| Remaining amortization period | Not applicable               |
| Asset valuation method        | Fair value, 5-year smoothing |
| Actuarial assumptions:        |                              |
| Investment rate of return     | 7.250%                       |
| Projected salary increases    | 5.0%                         |
| Cost-of-living adjustments    | 2.50%                        |

MILLVALE BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Brian Spoales**  
Mayor

**Mr. James Machajewshi**  
Council President

**Mr. Edward Figas**  
Chief Administrative Officer

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