

COMPLIANCE AUDIT

O'Hara Township Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

June 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Township Council
O'Hara Township
Allegheny County
Pittsburgh, PA 15238

We have conducted a compliance audit of the O'Hara Township Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 finding 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit 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 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 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 determined that there were no benefit calculations prepared for the years covered by our audit period.
- × We determined whether the January 1, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014, 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.

O'Hara Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2012 and 2013, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the O'Hara Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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.

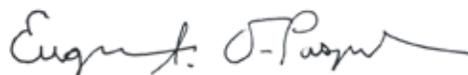
The results of our procedures indicated that, in all significant respects, the O'Hara Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation –
Inconsistent Pension Benefits

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 O'Hara Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

May 28, 2015



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

| | <u>Page</u> |
|--|-------------|
| Background..... | 1 |
| Status of Prior Finding..... | 3 |
| Finding and Recommendation: | |
| Finding – Partial Compliance With Prior Audit Recommendation – Inconsistent Pension Benefits..... | 4 |
| Supplementary Information..... | 5 |
| Report Distribution List..... | 9 |

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.

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 O'Hara Township Non-Uniformed 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 O'Hara Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1264, effective January 1, 2013. Prior to January 1, 2013, the pension plan was controlled by the provisions of Ordinance No. 1083, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1970. Active members are required to contribute 3 percent of earnings to the plan. As of December 31, 2014, the plan had 14 active members, no terminated members eligible for vested benefits in the future, and 9 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

| | |
|-------------------|--|
| Normal Retirement | Age 65 and 10 years of service |
| Early Retirement | Age 62 and 10 years of service |
| Vesting | For Public Works employees, 100% after 10 years of service; for Clerical employees, 100% after 7 years of service. |

Retirement Benefit:

A monthly benefit equal to 1.3% of Final Monthly Average Compensation, averaged over the highest 60 months for Public Works employees and averaged over the highest 36 months for Clerical employees, multiplied by Years of Service.

Survivor Benefit:

| | |
|-------------------------------|--|
| Before Retirement Eligibility | Refund of member contributions plus interest. |
| After Retirement Eligibility | The normal form of benefit payment is a life annuity with 120 months guaranteed. At retirement, the participant may select an optional form of payment that is an actuarial equivalent of the normal form. |

Service and Non-Service Related Disability Benefit:

Following the later of age 40 or the completion of 10 years of service, the accrued benefit is payable, reduced by social security disability benefits, workers compensation and other disability benefits provided by the employer.

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

O'Hara Township has partially complied with the prior audit recommendation concerning the following:

- Inconsistent Pension Benefits

On March 12, 2013, the township adopted Ordinance No. 1264 which restated the pension plan's governing document and corrected the inconsistencies regarding the normal retirement benefit multiplier and the final monthly average compensation; however, Ordinance No. 1264 did not correct the inconsistency for the deferred vesting benefit provision as further discussed in the Finding and Recommendation section of this report.

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Partial Compliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: On March 12, 2013, the township adopted Ordinance No. 1264 which restated the pension plan's governing document and corrected the inconsistencies regarding the normal retirement benefit multiplier and the final monthly average compensation that were as disclosed in the prior audit report; however, the new plan document still contains a benefit provision that conflicts with the collective bargaining agreement between the township's clerical non-uniformed employees and the township, as follows:

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Collective Bargaining Agreement</u> |
|--------------------------|--|--|
| Deferred vesting benefit | Section 8.03 of the governing document states "A Participant who ceases to be an Employee in Employment for any reason other than death, disability, or retirement, and who has completed at least ten (10) Years of Service shall be entitled to a one-hundred percent (100%) vested retirement benefit". . . | Pension vesting is seven (7) years for plan participants governed by the collective bargaining agreement for clerical employees. |

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

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

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

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

Auditors Conclusion: Compliance will be subject to verification through our next audit.

O'HARA TOWNSHIP NON-UNIFORMED 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, 2009, is as follows:

| | (1) | (2) | (3) | (4) | (5) | (6) |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a) | Funded Ratio (a)/(b) | Covered Payroll (c) | Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)] |
| 01-01-09 | \$ 2,356,929 | \$ 1,645,401 | \$ (711,528) | 143.2% | \$ 661,289 | (107.6%) |
| 01-01-11 | 2,486,489 | 1,874,795 | (611,694) | 132.6% | 737,400 | (83.0%) |
| 01-01-13 | 2,558,272 | 2,099,886 | (458,386) | 121.8% | 791,027 | (57.9%) |

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 4-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.

O'HARA TOWNSHIP NON-UNIFORMED 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2009 | None | N/A |
| 2010 | None | N/A |
| 2011 | None | N/A |
| 2012 | None | N/A |
| 2013 | None | N/A |
| 2014 | \$ 5,518 | 100% |

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the required 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, 2013 |
| Actuarial cost method | Entry age normal |
| Amortization method | N/A |
| Remaining amortization period | N/A |
| Asset valuation method | Fair value, 4-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.5% |
| Projected salary increases * | 5.0% |

* Includes inflation at 3.0%

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

O'Hara Township Non-Uniformed Pension Plan
Allegheny County
325 Fox Chapel Road
Pittsburgh, PA 15238

| | |
|---------------------------|-------------------|
| Mr. Robert John Smith | Council President |
| Ms. Julie A. Jakubec, CPA | Township Manager |

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, 231 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.