

COMPLIANCE AUDIT

Mount Oliver Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

December 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

The Honorable Mayor and Borough Council
Mount Oliver Borough
Allegheny County
Mount Oliver, PA 15210

We have conducted a compliance audit of the Mount Oliver Borough Police 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 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 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, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.
- × We determined whether refunds made to plan members were authorized in accordance with plan provisions and applicable laws and regulations by testing all 4 of the refunds disbursed to plan members during the current audit period.
- × We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the 2 transfers made during the audit period.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Oliver Borough Police 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 borough's internal controls as they relate to the borough'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 Mount Oliver 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 Audit Recommendation –
Pension Plan Not In Compliance With Act 600 Provisions

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In
An Underpayment Of State Aid

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



EUGENE A. DEPASQUALE
Auditor General

December 14, 2015

CONTENTS

| | <u>Page</u> |
|---------------------------------------------------------------------------------------------------------------------------------|-------------|
| Background..... | 1 |
| Status of Prior Finding..... | 3 |
| Findings and Recommendations: | |
| Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions | 4 |
| Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid..... | 6 |
| Supplementary Information | 8 |
| Report Distribution List | 12 |

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 Mount Oliver Borough Police 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 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. § 761 et seq.

The Mount Oliver Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 893, 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 May 5, 1970. Active members are required to contribute 2 percent of monthly compensation to the plan. As of December 31, 2014, the plan had 9 active members, 1 terminated member eligible for vested benefits in the future, and 3 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 55 and 25 years of service. |
| Early Retirement | None |
| Vesting | A member is 100% vested after 12 years of service. |

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$10 per month for each year of service in excess of 25 years, up to a maximum of \$100 per month.

Survivor Benefit:

Benefit equals 50% of pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

Monthly pension equal to the greater of 50% of 36 months average compensation preceding disability or 50% of salary at disability less Social Security disability benefits.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Pension Plan Not In Compliance With Act 600 Provisions

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document grants a benefit that is not authorized by Act 600. On June 15, 2009, the borough adopted Ordinance No. 913, which provides that “aggregate years of service shall be counted from the date of hiring of an officer.” The ordinance allows officers to receive full-time service credit for part-time service. However, credit for part-time years of service for pension purposes is not authorized by Act 600.

Criteria: Act 600 makes repeated references to full-time service as a basis for receiving pension benefits. Section 1(a) of Act 600 states that boroughs, towns, and townships with police forces of three or more full-time members must establish a police pension plan. Section 3 of Act 600 requires that the ordinance establishing the plan prescribe a minimum period of service of twenty-five years. Given Section 1(a), the service referred to could only be full-time service. This conclusion is supported by the twelve-year vesting provision contained in Section 5(h) of Act 600, under which vested benefits are not payable until the date which would have been the member’s superannuation retirement date if he/she had continued to be employed as a full-time police officer.

Moreover, Section 4 of Act 600 identifies situations in which previous service may be credited for retirement purposes. Other than service in the military, these situations involve full-time service as a police officer.

Additionally, regarding part-time service credit, it is the Department’s opinion that Act 600 does not expressly empower municipalities to grant service credit for part-time employment. Nor does such power exist by necessary implication. As noted throughout Act 600, the service for which credit is approved (other than military service) is full-time service. Nowhere in Act 600 does the term “part-time” even appear. Giving credit for part-time service is outside the bounds established by Section 4 and finds no implied support in that or any other section of Act 600.

Cause: Municipal officials are aware that providing credit for part-time service is not authorized by Act 600; however, there are no plans to repeal the ordinance at this time.

Effect: For 2 current full-time police officers who were originally hired as part-time employees, the borough anticipates giving service credit for pension purposes upon their retirement for all service, including part-time service, based on Ordinance No. 913. If full-time service credit for part-time service is given, it will result in the provision of benefits in excess of those authorized by Act 600.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

Furthermore, providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Additionally, the increased costs to the pension plan as a result of the excess pension benefits may have resulted in the receipt of excess state aid during the current audit period and/or in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that borough officials amend the plan's governing document to remove the allowance for the credit of part-time service at its earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600, and/or is contractually obligated to pay benefits in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation report for the plan and funded in accordance with Act 205 standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, municipal officials should consult with the plan's actuary to prepare Supplemental Actuarial Information Form AG-MP-1 and submit the completed form to the Department. If it is determined the excess benefits had an impact on the borough's state aid allocations received during and subsequent to the current audit period, the plan's actuary should contact the Department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception, but indicated that it is their intent to provide this benefit.

Auditor's Conclusion: Based on the criteria previously cited, the finding and recommendation remain as stated.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough understated payroll by \$62,952 on the Certification Form AG 385 filed in 2015 when they failed to include two members’ Heart and Lung and workers’ compensation payments. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Furthermore, Section 1c. (B) of the instructions that accompany the Certification Form AG 385 states: Include any Heart and Lung benefits as part of employee W-2 wages.

Cause: Plan officials were unaware they could include Heart and Lung and workers’ compensation wages on the Certification Form AG 385.

In addition, plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocation was based on pension costs, the borough received an underpayment of state aid in the amount of \$10,649 as identified below:

| <u>Normal</u> <u>Cost</u> | <u>Payroll</u> <u>Understated</u> | <u>State Aid</u> <u>Underpayment</u> |
|------------------------------|--------------------------------------|-----------------------------------------|
| 16.91662% | \$62,952 | \$10,649 |

Although the borough will be reimbursed for the underpayment of state aid due to the borough’s certification error, the full amount of 2015 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding 2 – (Continued)

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

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

MOUNT OLIVER 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, 2009, is as follows:

| | (1) | (2) | (3) | (4) |
|--------------------------------|----------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------|
| 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) |
| 01-01-09 | \$ 886,106 | \$ 888,543 | \$ 2,437 | 99.7% |
| 01-01-11 | 983,628 | 946,455 | (37,173) | 103.9% |
| 01-01-13 | 1,081,954 | 979,507 | (102,447) | 110.5% |

Note: The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing methods described in Section 210 of Act 205, as amended. These methods 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.

MOUNT OLIVER 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.

MOUNT OLIVER 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 |
|------------------------|------------------------------|------------------------|
| 2009 | \$ 71,954 | 100.0% |
| 2010 | 76,849 | 100.0% |
| 2011 | 71,690 | 103.7% |
| 2012 | 72,923 | 100.0% |
| 2013 | 74,227 | 109.7% |
| 2014 | 43,070 | 118.0% |

MOUNT OLIVER 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, 2013 |
| Actuarial cost method | Entry age normal |
| Amortization method | N/A |
| Remaining amortization period | N/A |
| Asset valuation method | Fair value, smoothing method described in Section 210 of Act 205, as amended. |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases * | 5.0% |

* Includes inflation at 3.0%

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mount Oliver Borough Police Pension Plan
Allegheny County
150 Brownsville Road
Mount Oliver, PA 15210

| | |
|------------------------------------|-------------------|
| The Honorable James Cassidy | Mayor |
| Mr. Darnell Sains | Council President |
| Mr. Ricky Hopkinson | Borough Manager |
| Ms. Kathy Connolly | Secretary |
| Ms. Diane Holzer | Treasurer |

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.