

COMPLIANCE AUDIT

Ohio Township Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

October 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Ohio Township
Allegheny County
Pittsburgh, PA 15237

We have conducted a compliance audit of the Ohio Township 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 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.
- × 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 the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

Ohio Township contracted with an independent certified public accounting firm for an audit 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 for the year ended December 31, 2014, which is 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.

For the years ended December 31, 2012 and 2013, the Ohio Township Police Pension Plan participated in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Ohio Township 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 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the Ohio Township 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 finding further discussed later in this report:

Finding - Pension Plan Not In Compliance With Act 600 Provisions

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 Ohio 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.

September 17, 2015



EUGENE A. DEPASQUALE
Auditor General

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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. 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 Ohio Township 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

Act 600 - Police Pension Fund Act, Act May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Ohio Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 198, as amended, adopted pursuant to Act 15. Effective August 5, 2013, the township adopted Ordinance No. 307, authorizing the withdrawal of the police pension plan from the Pennsylvania Municipal Retirement System (see Finding). The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established July 1, 1976. Active members are required to contribute 1 percent of gross wages to the plan. As of December 31, 2014, the plan had 13 active members, no terminated members eligible for vested benefits in the future, and 2 retirees receiving benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

| | |
|-------------------|---|
| Normal Retirement | Available upon attainment of age 50 and 12 years of service. |
| Early Retirement | A voluntary early retirement is available after 24 years of service. An involuntary early retirement is available after 8 years of service. |
| Vesting | A member is 100% vested after 12 years of service. |

Retirement Benefit:

Benefits equals 2.0% times credited service times Final Average Salary (FAS) but not greater than 50% of FAS, plus a service increment for each year of service in excess of 25 years, up to a maximum of \$100 per month. FAS based upon last 3 years annualized salary.

Survivor Benefit:

If eligible to retire or if retired at the time of death, spouse receives 50% of member's benefit.

Disability Benefit:

| | |
|---------------------|---|
| Service Related | Benefit equals 2.0% times credited service times Final Average Salary (FAS). In no event shall the disability benefit exceed 50% of the member's FAS. |
| Non-service Related | At least 10 years of credited service required for eligibility. Benefit equals 2.0% times credited service times Final Average Salary (FAS). In no event shall the disability benefit exceed 50% of the member's FAS. |

OHIO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Pension Plan Not In Compliance With Act 600 Provisions

Condition: On August 5, 2013, township officials passed Ordinance No. 307 which authorized the withdrawal of the police pension plan from the Pennsylvania Municipal Retirement System. Since the plan includes 3 or more full-time members and is no longer administered by PMRS, the plan must now operate under the requirements of Act 600. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 600. The specific inconsistencies are as follows:

| Benefit Provision | Ordinance No. 198 | Act 600 (as amended) |
|---|--|--|
| Eligibility for benefits | 50 years of age or older and 12 years of service. | A minimum of 25 years of aggregate service and age 55, or age 50 if supported by actuarial cost study. |
| Member contributions | If the actuarial study shows that 90 percent of the funds received by the Township from the Tax on Premiums of Foreign Casualty Companies (Act of May 12, 1943, P.L. 259, Section 1, as amended, 72 P.S. 2263.1) is sufficient to keep the fund actuarially sound, contributions shall be required from the members. Members shall be required to contribute the difference between 90 percent of the funds received by the Township as set forth above and the amount necessary to keep the fund actuarially sound, but in no event more than 8 percent of their salary. Current contribution rate is 1%. | Member contribution rate of 5% of monthly compensation. |
| Refund of terminated member’s contributions | No provision | Refund of member’s contributions plus interest to terminating members ineligible for pension benefits. |

OHIO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

| <u>Benefit Provision</u> | <u>Ordinance No. 193</u> | <u>Act 600 (as amended)</u> |
|--|---|---|
| Pre-vesting death benefits | None | A provision providing for the refund of member's contributions, plus investment income to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of a member who dies before he has vested. |
| Service related disability benefit | An amount equal to the number of years of credited service times 2 percent times the member's final average salary but in no event shall the disability benefit exceed 50 percent of the member's final average salary. | A service-related disability benefit in conformity with a uniform scale and fixed by the plan's governing document, but at least 50 percent of the member's salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury. |
| Non-service related disability benefit | After 10 or more years of credited service, same benefit as service related. | Not authorized. |
| Normal retirement benefit | The basic annual benefit shall be equal to 2 percent of the member's final salary multiplied by all years of credited service but in no event shall the basic benefit exceed 50 percent of the member's final salary. | A monthly pension benefit equal to 50 percent of the member's average monthly salary during not more than the last 60 nor less the last 36 months of employment. |

OHIO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

| <u>Benefit Provision</u> | <u>Ordinance No. 198</u> | <u>Act 600 (as amended)</u> |
|---------------------------------|---|--|
| Survivor’s benefit | The surviving spouse (or the surviving minor children in the absence of a spouse or upon the remarriage of the surviving spouse) will receive a pension equal to 50 percent of the pension which such member would have been eligible to receive if the member had been retired at the time of death. | A lifetime survivor’s benefit to the surviving spouse (or if no surviving spouse or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of at least 50 percent of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. |
| Definition of attending college | None | “Attending collage” shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester. |
| Early retirement benefit | A member who has been involuntarily terminated after 8 years of credited service or who has separated voluntarily after 24 years of credited service may retire early. Benefits will be actuarially reduced for each year or partial year thereof that early retirement takes place prior to age 50. | Early retirement benefit after the completion of 20 or more years of service. |

Criteria: Section 1(a)(1) of Act 600 states, in part:

Each borough, town and township. . . maintaining a police force of three or more full-time members shall . . . establish, by ordinance or resolution, a police pension fund. . . .

OHIO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Therefore, the police pension plan's benefit structure should be in compliance with Act 600, as amended.

Cause: Municipal officials were unaware that the plan document was not in compliance with Act 600.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: Since the pension plan is no longer administered by PMRS, we recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan's benefit structure into compliance with Act 600 at their earliest opportunity to do so. To the extent that the township 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 reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the township's future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the township's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

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

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

OHIO TOWNSHIP 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 | \$ 2,152,990 | \$ 2,264,065 | \$ 111,075 | 95.1% |
| 01-01-11 | 2,660,133 | 2,917,497 | 257,364 | 91.2% |
| 01-01-13 | 3,289,035 | 3,860,277 | 571,242 | 85.2% |

OHIO TOWNSHIP 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.

OHIO TOWNSHIP 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 | \$ 158,013 | 100.0% |
| 2010 | 163,335 | 100.0% |
| 2011 | 167,451 | 100.0% |
| 2012 | 186,192 | 100.0% |
| 2013 | 196,403 | 100.0% |
| 2014 | 205,938 | 100.0% |

OHIO TOWNSHIP 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 | Level dollar, closed |
| Remaining amortization period | 13 |
| Asset valuation method | Fair value |
| Actuarial assumptions: | |
| Investment rate of return | 5.5%, net of expenses |
| Projected salary increases * | Age-related scale for merit/ seniority (e.g. age 30 – 6.4%; age 40 – 5.0% age 50 – 4.1% age 60 – 3.7%) |
| Cost-of-living adjustments | 3.0%, where applicable |

* Includes inflation at 3.0%

OHIO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ohio Township Police Pension Plan
Allegheny County
1719 Roosevelt Road
Pittsburgh, PA 15237

| | |
|---------------------------|---|
| Mr. Thomas R. Beatty | Chairman, Board of Township Supervisors |
| Mr. John L. Sullivan, Jr. | Township Manager |
| Ms. Marsha E. Grom | Finance 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.