

COMPLIANCE AUDIT

Municipality of Bethel Park Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

August 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Municipal Council
Municipality of Bethel Park
Allegheny County
Bethel Park, PA 15102

We have conducted a compliance audit of the Municipality of Bethel Park Police Pension Plan for the period January 1, 2014 to December 31, 2015. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 whether retirement benefits calculated for all 4 of the plan members who retired during the current audit period, 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 monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We also determined whether retirement benefits calculated for the 1 plan member who elected to vest during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

The Municipality of Bethel Park contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the municipality's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Municipal officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Municipality of Bethel Park 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 municipality's internal controls as they relate to the municipality'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 Municipality of Bethel Park Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 the Municipality of Bethel Park and, where appropriate, their responses have been included in the report. We would like to thank municipal officials for the cooperation extended to us during the conduct of the audit.



EUGENE A. DEPASQUALE
Auditor General

July 19, 2016

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Supplementary Information	4
Report Distribution List	10

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 Municipality of Bethel Park 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.
- 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 Municipality of Bethel Park Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1-09-06, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its police officers. The plan was established May 29, 1955. Active members are required to contribute 8 percent of earnings to the plan. As of December 31, 2015, the plan had 32 active members, 2 terminated members eligible for vested benefits in the future, and 35 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service; if hired after January 1, 2001, age 55 with 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

A monthly benefit equal to 60% of final monthly average salary (averaged over the last 36 months of employment), plus an additional monthly benefit of \$100 for service in excess of 26 years. For participants hired on or after January 1, 2001, a monthly benefit equal to 50% of final monthly average salary, plus service increment, if any.

Survivor Benefit:

Upon an active participant's death after normal retirement eligibility, the surviving spouse will automatically receive 50% of participant's normal retirement benefits until death. For participants hired before January 1, 2001, who die prior to normal retirement eligibility, a survivor benefit equal to 25% (30% if after normal retirement eligibility) of base monthly salary, up to a maximum of \$800 per month, is payable until death or remarriage. For participants who are killed in service, a monthly benefit equal to 100% of participant's salary is payable to the participant's spouse until death.

Service Related Disability Benefit:

For participants hired on or after January 1, 2001, 50% of salary at the time the disablement offset by Social Security disability benefits received for the same condition.

MUNICIPALITY OF BETHEL PARK POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

The Municipality of Bethel Park has complied with the prior audit recommendation concerning the following:

- Unauthorized Provision For A Killed In Service Benefit

Subsequent to the current audit period, municipal officials adopted Ordinance No. 6-13-16A, which eliminated the unauthorized killed in service benefit provision.

MUNICIPALITY OF BETHEL PARK POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Page 4 and Page 5 reflect the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Total Pension Liability		
Service cost	\$ 466,702	\$ 489,143
Interest	1,907,841	1,765,497
Difference between expected and actual experience	333,605	-
Changes of assumptions	660,222	-
Benefit payments, including refunds of member contributions	<u>(1,465,130)</u>	<u>(1,195,967)</u>
Net Change in Total Pension Liability	1,903,240	1,058,673
Total Pension Liability – Beginning	24,696,673	23,638,000
Total Pension Liability - Ending (a)	<u>\$ 26,599,913</u>	<u>\$ 24,696,673</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,202,402	\$ 1,054,563
Contribution – member	262,098	254,863
Net investment income	30,022	1,808,047
Benefit payments, including refunds of member contributions	<u>(1,465,130)</u>	<u>(1,195,967)</u>
Administrative expense	<u>(138,764)</u>	<u>(120,413)</u>
Net Change in Plan Fiduciary Net Position	(109,372)	1,801,093
Plan Fiduciary Net Position – Beginning	21,091,750	19,290,657
Plan Fiduciary Net Position - Ending (b)	<u>\$ 20,982,378</u>	<u>\$ 21,091,750</u>
Net Pension Liability - Ending (a-b)	<u>\$ 5,617,535</u>	<u>\$ 3,604,923</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.88%	85.40%
Estimated Covered Employee Payroll	\$ 3,343,281	\$ 2,741,667
Net Pension Liability as a Percentage of Covered Employee Payroll	168.02%	131.49%

MUNICIPALITY OF BETHEL PARK POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the municipality, calculated using the discount rate of 7.5%, as well as what the municipality's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$ 8,571,899	\$ 5,617,535	\$ 3,093,186

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2015	0.15%
2014	9.30%

MUNICIPALITY OF BETHEL PARK 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, 2011, 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)
01-01-11	\$ 14,635,195	\$ 20,415,404	\$ 5,780,209	71.7%
01-01-13	15,979,779	22,459,923	6,480,144	71.1%
01-01-15	19,878,310	25,690,500	5,812,190	77.4%

Note: The market values of the plan's assets at 01-01-11, 01-01-13 and 01-01-15 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.

MUNICIPALITY OF BETHEL PARK 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.

MUNICIPALITY OF BETHEL PARK POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2010	\$ 704,743	100.0%
2011	689,935	100.0%
2012	831,536	100.0%
2013	1,036,045	100.0%
2014	1,054,563	100.0%
2015	1,202,402	100.0%

MUNICIPALITY OF BETHEL PARK 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	8 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.0%
Cost-of-living adjustments	3.0%

* Includes inflation at 3.0%

MUNICIPALITY OF BETHEL PARK POLICE PENSION PLAN
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This report was initially distributed to the following:

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MUNICIPALITY OF BETHEL PARK POLICE PENSION PLAN
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Mr. James Villella
Finance Director

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