

# COMPLIANCE AUDIT

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## Dormont Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

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August 2019



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 Borough Council  
Dormont Borough  
Allegheny County  
Pittsburgh, PA 15216

We have conducted a compliance audit of the Dormont Borough Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2018. 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 total 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 both 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 benefits due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Dormont Borough 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 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 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 Dormont Borough 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 – Untimely Deposit Of State Aid

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 Dormont 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.

August 1, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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 Dormont Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Dormont Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1458, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established March 1, 1966. Active members are required to contribute 3.8% percent of compensation to the plan. As of December 31, 2018, the plan had 24 active members, no terminated members eligible for vested benefits in the future, and 7 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 65 and 20 years of service. Effective November 3, 2014, age 60 and 20 years of service.
Early Retirement	Age 62 and 15 years of service.
Vesting	100% vesting available after 10 years of service.

### Retirement Benefit:

A monthly benefit equal to 1.25% of Final Monthly Average Compensation (compensation averaged over the last 60 months of employment), multiplied by years of service. For desk officers/fire apparatus operators, compensation is averaged over the last 36 months of employment.

### Survivor Benefit:

Before 10 years of service	Refund of member contributions plus interest.
After 10 years of service but Before Retirement	The surviving spouse will receive 50% of the participant's Accrued Benefit at date of death, payable at what would have been the Participant's Normal Retirement Date. If no spouse, a refund of contributions plus interest.
After disability	Surviving spouse receives 50% of participant's disability Benefit at date of death.
After Retirement	Excess of contributions plus interest over benefits paid.

### Disability Benefits

After 10 years of service and which qualifies for Social Security disability benefits, a monthly benefit equal to 1.25% of Final Monthly Average Compensation at disablement, multiplied by projected years of service to Normal Retirement.

DORMONT BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2016 state aid allocation into the pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2016 state aid allocation in the amount of \$209,983 on September 27, 2016, but did not deposit the money into its police and non-uniformed pension plans until December 9, 2016.

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 2016 state aid was not deposited timely into the municipality's pension plans because internal control procedures were not effective to ensure the timely deposit of state aid during 2016.

Effect: Although the state aid was deposited into the plans, the interest earned beyond the 30 day grace period was not deposited into the plans. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the police and non-uniformed pension plans the interest earned during the period beyond the 30 day grace period allowed by Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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

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



DORMONT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Page 4 through 7 reflects 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 YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 77,067	\$ 92,832
Interest	171,369	205,717
Change of benefit terms	-	375,643
Difference between expected and actual experience	-	(84,709)
Benefit payments, including refunds of member contributions	(106,289)	(87,709)
Net Change in Total Pension Liability	142,147	501,774
Total Pension Liability – Beginning	2,260,043	2,402,190
Total Pension Liability – Ending (a)	<u>\$ 2,402,190</u>	<u>\$ 2,903,964</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 14,842	\$ 26,839
Contributions – member	44,930	44,296
Net investment income	146,879	(66,519)
Benefit payments, including refunds of member contributions	(106,289)	(87,709)
Administrative expense	(2,025)	(21,390)
Net Change in Plan Fiduciary Net Position	98,337	(104,483)
Plan Fiduciary Net Position – Beginning	2,918,676	3,017,013
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,017,013</u>	<u>\$ 2,912,530</u>
Net Pension Liability – Ending (a-b)	<u>\$ (614,823)</u>	<u>\$ (8,566)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	125.6%	100.3%
Estimated Covered Employee Payroll	\$ 1,187,881	\$ 1,150,214
Net Pension Liability as a Percentage of Covered Employee Payroll	(51.8%)	(0.7%)

DORMONT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 92,899	\$ 94,689
Interest	221,788	240,540
Difference between expected and actual experience	-	(65,775)
Changes of assumptions	-	197,874
Benefit payments, including refunds of member contributions	(80,845)	(95,282)
Net Change in Total Pension Liability	<u>233,842</u>	<u>372,046</u>
Total Pension Liability – Beginning	2,903,964	3,137,806
Total Pension Liability – Ending (a)	<u><u>\$ 3,137,806</u></u>	<u><u>\$ 3,509,852</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 11,029	\$ 44,289
Contributions – member	46,236	49,057
Net investment income	122,500	438,676
Benefit payments, including refunds of member contributions	(80,845)	(95,282)
Administrative expense	(26,332)	(23,137)
Net Change in Plan Fiduciary Net Position	<u>72,588</u>	<u>413,603</u>
Plan Fiduciary Net Position – Beginning	2,912,530	2,985,118
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 2,985,118</u></u>	<u><u>\$ 3,398,721</u></u>
Net Pension Liability – Ending (a-b)	\$ 152,688	\$ 111,131
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.1%	96.8%
Estimated Covered Employee Payroll	\$ 1,175,890	\$ 1,288,725
Net Pension Liability as a Percentage of Covered Employee Payroll	13.0%	8.6%

DORMONT BOROUGH NON-UNIFORMED 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 borough as of December 31, 2014, 2015 and 2016, calculated using the discount rate of 7.50%, as well as what the borough'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:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability – 12/31/14	\$ (320,068)	\$ (614,823)	\$ (870,034)
Net Pension Liability – 12/31/15	\$ 324,933	\$ (8,566)	\$ (291,615)
Net Pension Liability – 12/31/16	\$ 505,314	\$ 152,688	\$ (146,023)

In addition, the following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 7.25%, as well as what the borough'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:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability – 12/31/17	\$ 529,133	\$ 111,131	\$ (239,061)

DORMONT BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll*</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2009	\$ -	\$ -	\$ -		
2010	-	-	-	\$ 891,142	0.0%
2011	11,682	\$ 11,682	-		
2012	11,030	11,030	-	1,080,001	1.0%
2013	10,134	10,134	-		
2014	14,842	14,842	-	1,187,881	1.2%
2015	11,348	26,839	(15,491)	1,150,214	2.3%
2016	11,029	11,029	-	1,175,890	0.9%
2017	44,289	44,289	-	1,288,725	3.4%
2018	49,814	49,814	-		

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2017	14.80%
2016	4.18%
2015	(2.21)%
2014	5.76%

DORMONT BOROUGH 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, 2013, 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)
01-01-13	\$ 2,527,053	\$ 2,088,682	\$ (438,371)	121.0%
01-01-15 *	2,921,963	2,693,124	(228,839)	108.5%
01-01-17	3,213,391	3,269,905	56,514	98.3%

Note: The market values of the plan's assets at 01-01-13, 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. 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.

\* Revised assumptions pursuant to experience review.

DORMONT BOROUGH 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.

DORMONT BOROUGH NON-UNIFORMED 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	15 years
Asset valuation method	4-year smoothing - the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	5.00%

\* Includes inflation at 2.75%

DORMONT BOROUGH NON-UNIFORMED PENSION PLAN  
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