

# COMPLIANCE AUDIT

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## Green Tree Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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June 2018



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  
Green Tree Borough  
Allegheny County  
Pittsburgh, PA 15220

We have conducted a compliance audit of the Green Tree Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017. 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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.
- 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.

Green Tree Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2014, 2015 and 2016 which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Green Tree 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 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 Green Tree 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 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 Green Tree 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.

June 5, 2018

  
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 Green Tree Borough Police 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 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. § 767 et seq.

The Green Tree Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1680, 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 December 30, 1958. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had 10 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, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service. If hired before January 24, 2001, Age 55 and 20 years of service.
Early Retirement	None
Vesting	A member is 100% after 12 years of service.

### Retirement Benefit:

Benefit is 50% of final 36 months average salary, plus a service increment of \$100 per month for participants retiring with 26 or more years of service.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	Benefit is 50% of the pension the participant was receiving or would have been receiving had he been retired at death.

### Service Related Disability Benefit:

Greater of 50% accrued benefit at disability or 50% of the salary at disability less Social Security disability benefits. To the extent permitted by law, benefit will be offset by sick pay and any amount as result of disability under Worker's Compensation, Social Security, state unemployment and disability insurance provided by employer.

GREENTREE BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Untimely Deposit Of State Aid**

Condition: The municipality did not deposit its 2015 and 2017 state aid allocations into the police pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2015 and 2017 state aid allocations in the amount of \$145,071 and \$169,765, respectively, on September 30, 2015, and September 27, 2017, respectively, but did not deposit the money into its police pension plan until November 18, 2015, and November 7, 2017, respectively.

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 fund or the alternate funding mechanism applicable to the respective pension plan.

Cause: The 2015 and 2017 state aid allocations were not deposited timely into the municipality's pension plan because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. 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 pension plan 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 develop and implement 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 exception.

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



GREEN TREE BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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	\$ 143,699	\$ 183,617
Interest	373,691	405,704
Difference between expected and actual experience	165,286	-
Benefit payments, including refunds of member contributions	<u>(250,021)</u>	<u>(240,576)</u>
Net Change in Total Pension Liability	432,655	348,745
Total Pension Liability - Beginning	5,391,601	5,824,256
Total Pension Liability - Ending (a)	<u><u>\$ 5,824,256</u></u>	<u><u>\$ 6,173,001</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 198,934	\$ 239,489
Contributions – member	55,885	59,020
Net investment income	283,655	(50,699)
Benefit payments, including refunds of member contributions	(250,021)	(240,576)
Administrative expense	-	(7,120)
Other	<u>(20,494)</u>	<u>(47,722)</u>
Net Change in Plan Fiduciary Net Position	267,959	(47,608)
Plan Fiduciary Net Position - Beginning	5,536,923	5,804,882
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 5,804,882</u></u>	<u><u>\$ 5,757,274</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 19,374</u></u>	<u><u>\$ 415,727</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.67%	93.27%
Estimated Covered Employee Payroll	\$ 1,118,418	\$ 1,054,895
Net Pension Liability as a Percentage of Covered Employee Payroll	1.73%	39.41%

GREEN TREE BOROUGH POLICE 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	\$ 196,470	\$ 187,757
Interest	430,897	424,755
Difference between expected and actual experience	(474,250)	11,126
Benefit payments, including refunds of member contributions	<u>(231,130)</u>	<u>(241,880)</u>
Net Change in Total Pension Liability	(78,013)	381,758
Total Pension Liability - Beginning	<u>6,173,001</u>	<u>6,094,988</u>
Total Pension Liability - Ending (a)	<u><u>\$ 6,094,988</u></u>	<u><u>\$ 6,476,746</u></u>
 Plan Fiduciary Net Position		
Contributions – employer*	\$ 230,110	\$ 209,630
Contributions - member	56,124	58,458
Net investment income	254,549	773,122
Benefit payments, including refunds of member contributions	(231,130)	(241,880)
Administrative expense	-	(6,100)
Other	<u>(21,195)</u>	<u>(23,273)</u>
Net Change in Plan Fiduciary Net Position	288,458	769,957
Plan Fiduciary Net Position - Beginning	<u>5,757,274</u>	<u>6,045,732</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 6,045,732</u></u>	<u><u>\$ 6,815,689</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ 49,256</u></u>	<u><u>\$ (338,943)</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.19%	105.23%
 Estimated Covered Employee Payroll	\$ 1,141,810	\$ 1,150,000
 Net Pension Liability as a Percentage of Covered Employee Payroll	4.31%	(29.47%)

\* Contributions by the borough for 2016 includes \$15,488 reimbursement that is not part of the annual required contribution.

GREEN TREE BOROUGH 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 borough as of December 31, 2014 2015, 2016, and 2017 calculated using the discount rate of 7.0%, 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:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability - 12/31/14	\$ 769,877	\$ 19,374	\$ (614,492)
Net Pension Liability - 12/31/15	\$ 1,211,169	\$ 415,727	\$ (256,093)
Net Pension Liability - 12/31/16	\$ 820,786	\$ 49,256	\$ (600,537)
Net Pension Liability - 12/31/17	\$ 480,912	\$ (338,943)	\$ (1,029,436)

SCHEDULE OF INVESTMENT RETURNS

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

2017	12.96%
2016	4.45%
2015	(1.33%)
2014	5.11%

GREEN TREE 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, 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	\$ 4,595,974	\$ 5,147,106	\$ 551,132	89.3%
01-01-15	5,548,315	5,824,256	275,941	95.3%
01-01-17	6,418,257	6,094,988	(323,269)	105.3%

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 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.

GREEN TREE 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.

GREEN TREE 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
2012	\$ 143,896	100.0%
2013	183,408	100.0%
2014	198,934	100.0%
2015	239,489	100.0%
2016	214,622	100.0%
2017	209,630	100.0%

GREEN TREE 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, 2017
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	7.0%
Projected salary increases	5.0%

GREEN TREE BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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