

LIMITED PROCEDURES ENGAGEMENT

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

January 2019



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
Heidelberg Borough
Allegheny County
Heidelberg, PA 15106

We conducted a Limited Procedures Engagement (LPE) of the Heidelberg Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether retirement benefits calculated for the plan member who retired subsequent to the engagement 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 retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to recipients.

- 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Heidelberg Borough Police Pension Plan was not being 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 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

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 Heidelberg Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

January 7, 2019


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205	1
Supplementary Information	4
Report Distribution List	12

HEIDELBERG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

Condition: During 2015 and 2016, the borough changed investment and advisory service contractors for its police pension plan. However, there was no substantive evidence provided to support that the changes in service providers was conducted in accordance with provisions prescribed in Act 205 and borough administrative procedures and/or that the change was properly approved by borough council.

Criteria: Section 701-A of Act 205, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f), and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest – The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

HEIDELBERG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon the advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Furthermore, Resolution No. 17-2011, enacted by the borough on December 20, 2011, also establishes procedures for the procurement of professional services for the municipal pension system in accordance with Act 205 provisions.

Cause: Plan officials failed to establish adequate procedures to properly follow and document adherence with each requirement prescribed under the provisions of Act 205 and its own procurement procedures in the awarding of the professional services contracts for the borough's pension plan.

Effect: We were unable to determine whether the borough complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures for the procuring of professional investment and advisory services for the borough's police pension plan. Also, by failing to maintain appropriate substantive supporting documentation evidencing adherence with each requirement prescribed under Act 205 and the borough's own procedures in the awarding of the professional services contract, it denotes a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the investment and advisory services contracts for the borough's pension plan.

Recommendation: We recommend the borough follow procedures developed and implemented by the borough in Resolution No. 17-2011 of 2011 for the procurement of professional services for the borough's pension plan and ensure compliance with Act 205 provisions while maintaining appropriate and sufficient supporting documentation in the awarding of future professional services contracts for the pension plan. This documentation should evidence every phase of the process in accordance with the borough's policies and procedures and Act 205.

HEIDELBERG BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, since we were unable to conclude whether the borough complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures relative to the procurement of professional investment and advisory services for the borough's police pension plan awarded during 2015 and 2016, we recommend that plan officials, along with the current borough council and/or its solicitor, collectively review the Act 205 process and familiarize themselves with the procedures enacted by the borough while closely examining the discrepancy noted in the Condition above and identifying ways to improve the process as a whole, thus ensuring transparency for plan members as well as the citizens of Heidelberg Borough and the avoidance of any confusion pertaining to the proper administration of the borough's police pension plan.

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

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

HEIDELBERG BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 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	\$ 22,081	\$ 26,013
Interest	20,684	22,492
Change of benefit terms	(36,826)	(7,279)
Difference between expected and actual experience	16,151	-
Benefit payments, including refunds of member contributions	<u>(21,318)</u>	<u>(21,318)</u>
Net Change in Total Pension Liability	772	19,908
Total Pension Liability – Beginning	<u>317,082</u>	<u>317,854</u>
Total Pension Liability – Ending (a)	<u>\$ 317,854</u>	<u>\$ 337,762</u>
Plan Fiduciary Net Position		
Contributions – employer*	\$ -	\$ -
Net investment income	22,871	1,395
Benefit payments, including refunds of member contributions	(21,318)	(21,318)
Administrative expense	<u>(4,112)</u>	<u>(2,798)</u>
Net Change in Plan Fiduciary Net Position	(2,559)	(22,721)
Plan Fiduciary Net Position – Beginning	<u>552,641</u>	<u>550,082</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 550,082</u>	<u>\$ 527,361</u>
Net Pension Liability – Ending (a-b)	<u>\$ (232,228)</u>	<u>\$ (189,599)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	173.1%	156.1%
Estimated Covered Employee Payroll	\$ 169,380	\$ 180,850
Net Pension Liability as a Percentage of Covered Employee Payroll	(137.1%)	(104.8%)

* Employer contributions due for 2015 amounting to \$1,519 were deposited in 2016.

HEIDELBERG 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	\$ 19,830	\$ 29,212
Interest	23,673	19,813
Change of benefit terms	(751)	-
Difference between expected and actual experience	9,955	-
Benefit payments, including refunds of member contributions	<u>(21,318)</u>	<u>(16,412)</u>
Net Change in Total Pension Liability	31,389	32,613
Total Pension Liability - Beginning	<u>337,762</u>	<u>369,151</u>
Total Pension Liability - Ending (a)	<u>\$ 369,151</u>	<u>\$ 401,764</u>
 Plan Fiduciary Net Position		
Contributions – employer*	\$ 3,142	\$ -
Net investment income	17,326	50,552
Benefit payments, including refunds of member contributions	(21,318)	(16,412)
Administrative expense	<u>(1,159)</u>	<u>-</u>
Net Change in Plan Fiduciary Net Position	(2,009)	34,140
Plan Fiduciary Net Position - Beginning	<u>527,361</u>	<u>525,352</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 525,352</u>	<u>\$ 559,492</u>
 Net Pension Liability - Ending (a-b)	<u>\$ (156,201)</u>	<u>\$ (157,728)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	142.3%	139.3%
Estimated Covered Employee Payroll	\$ 197,792	\$ 196,558
 Net Pension Liability as a Percentage of Covered Employee Payroll	(79.0%)	(80.2%)

* Employer contributions for 2016 include \$1,519 deposited for 2015 as noted above. Also, employer contributions for 2017 amounting to \$7,669 were subsequently deposited during 2018.

HEIDELBERG 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 and 2015, calculated using the discount rate of 6.75%, 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 (5.75%)</u>	<u>Current Discount Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net Pension Liability – 12/31/14	\$ (197,065)	\$ (232,228)	\$ (262,497)
Net Pension Liability – 12/31/15	\$ (152,234)	\$ (189,599)	\$ (221,764)

In addition, the following presents the net pension liability of the borough as of December 31, 2016 and 2017, calculated using the discount rate of 6.50%, 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 (5.50%)</u>	<u>Current Discount Rate (6.50%)</u>	<u>1% Increase (7.50%)</u>
Net Pension Liability – 12/31/16	\$ (112,112)	\$ (156,201)	\$ (193,712)
Net Pension Liability – 12/31/17	\$ (117,508)	\$ (157,728)	\$ (206,317)

HEIDELBERG BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	10.94%
2016	4.23%
2015	0.99%
2014	5.16%
2013	15.67%
2012	8.63%
2011	0.53%
2010	7.52%
2009	5.96%
2008	(16.51%)

HEIDELBERG 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	\$ 580,667	\$ 296,011	\$ (284,656)	196.2%
01-01-15	590,463	317,854	(272,609)	185.8%
01-01-17	605,260	369,151	(236,109)	164.0%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 are valued using the smoothing method described in Section 210 of Act 205, as amended. 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.

HEIDELBERG 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.

HEIDELBERG 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	None	N/A
2013	None	N/A
2014	None	N/A
2015	\$ 1,519	100.0%
2016	None	N/A
2017	\$ 4,359	175.9%

HEIDELBERG 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	Plan assets are valued using the method described in Section 210 of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	6.50%
Projected salary increases	3.75%
Cost-of-living adjustments	2.50%

HEIDELBERG BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Kenneth LaSota, Ph.D.
Mayor

Ms. Sharon Wicobroda
Council President

Ms. Janice C. Adamski
Borough Manager

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.