

LIMITED PROCEDURES ENGAGEMENT

Leetsdale Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

March 2020



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
Leetsdale Borough
Allegheny County
Leetsdale, PA 15056

We conducted a Limited Procedures Engagement (LPE) of the Leetsdale Borough Police Pension Plan for the period January 1, 2016 to December 31, 2018 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.

- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Leetsdale 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 – Pension Benefit Not In Compliance With Act 600 Provisions

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 Leetsdale 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.

February 11, 2020



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Finding And Recommendation:	
Finding - Pension Benefit Not In Compliance With Act 600 Provisions	1
Supplementary Information	3
Report Distribution List	9

LEETSDALE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Pension Benefit Not In Compliance With Act 600 Provisions

Condition: The collective bargaining agreement between the borough and its police officers, at Article 10(A)D, contains a benefit provision that conflicts with the plan's governing document and is not in compliance with Act 600, as amended. The specific inconsistency is as follows:

Benefit Provision	Collective Bargaining Agreement	Act 600 (as amended)												
Service-related disability benefit	<p>Effective January 1, 1997, the police pension shall be modified to include long term disability benefits. The total amount of disability to be provided by the plan shall be determined by the pension plan members' years of active duty service on the Leetsdale Police Force according to the following schedule:</p> <table><tr><th>Years of Active Duty Service</th><th>Percent of Normal Retirement Benefits</th></tr><tr><td>0-4</td><td>0</td></tr><tr><td>5-9</td><td>25</td></tr><tr><td>10-14</td><td>50</td></tr><tr><td>15-19</td><td>75</td></tr><tr><td>20 and Over</td><td>100</td></tr></table> <p>[The CBA does not specify service-related or nonservice-related.]</p>	Years of Active Duty Service	Percent of Normal Retirement Benefits	0-4	0	5-9	25	10-14	50	15-19	75	20 and Over	100	<p>The benefit must be in conformity with a uniform scale and fixed by the plan's governing document at no less than 50% 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.</p>
Years of Active Duty Service	Percent of Normal Retirement Benefits													
0-4	0													
5-9	25													
10-14	50													
15-19	75													
20 and Over	100													

We note that the service-related disability benefit provision contained in the plan's governing document, Ordinance No. 613, is in accordance with Act 600 provisions.

LEETSDALE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Continued

Criteria: The police pension plan's benefit structure should be in compliance with the provisions of Act 600, as amended, unless continuance of a contradictory benefit is justified by the provisions of the collective bargaining agreement in effect. In addition, the plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Although discussed as a verbal observation during two prior audits, municipal officials failed to update the plan's collective bargaining agreement upon its expiration on December 31, 2017.

Effect: Inconsistencies between the governing plan document and the collective bargaining agreement could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, 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: 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, as amended, at their earliest opportunity to do so. If continuation of benefits contrary to Act 600, as amended, is justified by the provisions of the current collective bargaining agreement, we recommend that the benefits be adopted as soon as deemed appropriate, but not later than the expiration of the current collective bargaining agreement on December 31, 2022.

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

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

LEETSDALE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 45,900	\$ 45,988	\$ 49,207	\$ 40,780	\$ 43,635
Interest	76,978	80,725	83,294	80,562	84,271
Difference between expected and actual experience	26,837	-	(97,527)	-	15,625
Changes of assumptions	-	-	-	-	(36,637)
Benefit payments, including refunds of member contributions	(79,043)	(113,444)	(69,789)	(69,789)	(69,789)
Net Change in Total Pension Liability	70,672	13,269	(34,815)	51,553	37,105
Total Pension Liability - Beginning	1,116,264	1,186,936	1,200,205	1,165,390	1,216,943
Total Pension Liability - Ending (a)	<u>\$ 1,186,936</u>	<u>\$ 1,200,205</u>	<u>\$ 1,165,390</u>	<u>\$ 1,216,943</u>	<u>\$ 1,254,048</u>
Plan Fiduciary Net Position					
Contributions - employer*	\$ 72,971	\$ 76,121	\$ 74,907	\$ 76,172	\$ 67,291
Contributions - member	15,136	13,855	13,472	15,714	16,429
Net investment income	46,253	1,803	47,814	130,287	(10,939)
Benefit payments, including refunds of member contributions	(79,043)	(113,444)	(69,789)	(69,789)	(69,789)
Administrative expense	(8,120)	(6,131)	(370)	(9,996)	(30,409)
Net Change in Plan Fiduciary Net Position	47,197	(27,796)	66,034	142,388	(27,417)
Plan Fiduciary Net Position - Beginning	793,306	840,503	812,707	878,741	1,021,129
Plan Fiduciary Net Position - Ending (b)	<u>\$ 840,503</u>	<u>\$ 812,707</u>	<u>\$ 878,741</u>	<u>\$ 1,021,129</u>	<u>\$ 993,712</u>
Net Pension Liability - Ending (a-b)	<u>\$ 346,433</u>	<u>\$ 387,498</u>	<u>\$ 286,649</u>	<u>\$ 195,814</u>	<u>\$ 260,336</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.81%	67.71%	75.40%	83.91%	79.24%
Estimated Covered Employee Payroll	\$ 304,533	\$ 239,727	\$ 279,202	\$ 274,939	\$ 274,939
Net Pension Liability as a Percentage of Covered Employee Payroll	113.76%	161.64%	102.67%	71.22%	94.69%

*The 2016, 2017 and 2018 employer contributions include proceeds from the sale of police reports.

LEETSDALE 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, 2015, 2016, 2017, and 2018, 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 - 12/31/15	\$ 542,604	\$ 387,498	\$ 258,270
Net Pension Liability - 12/31/16	\$ 434,970	\$ 286,649	\$ 161,570
Net Pension Liability - 12/31/17	\$ 350,696	\$ 195,814	\$ 66,246
Net Pension Liability - 12/31/18	\$ 427,897	\$ 260,336	\$ 121,233

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 69,926	\$ 72,971	\$ (3,045)	\$ 304,533	23.96%
2015	75,401	76,121	(720)	239,727	31.75%
2016	72,902	74,907	(2,005)	279,202	26.83%
2017	75,197	76,172	(975)	274,939	27.71%
2018	66,021	67,291	(1,270)	274,939	24.47%

LEETSDALE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(3.83)%
2017	15.06%
2016	6.18%
2015	.41%
2014	6.16%

LEETSDALE 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	\$ 722,456	\$ 1,076,798	\$ 354,342	67.1%
01-01-15	826,367	1,186,936	360,569	69.6%
01-01-17	911,158	1,165,390	254,232	78.2%

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.

LEETSDALE 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.

LEETSDALE 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	Level dollar, closed
Remaining amortization period	8 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	4.0%

* Includes inflation at 2.5%

LEETSDALE 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 Peter A. Poninsky
Mayor

Mr. Jeffery Weatherby
Council President

Mr. Benjimen Frederick
Council Vice President

Ms. Jennifer Simek
Borough Secretary

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.