

# LIMITED PROCEDURES ENGAGEMENT

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## Millvale Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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February 2020



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  
Millvale Borough  
Allegheny County  
Millvale, PA 15209

We conducted a Limited Procedures Engagement (LPE) of the Millvale Borough Police Pension Plan for the period January 1, 2015 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 municipal officials took appropriate corrective action to address the finding contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 elected to vest during 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- Whether the January 1, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018, and 2020, 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 Millvale 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.

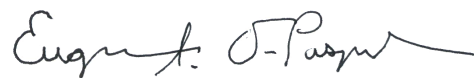
Finding - Failure To Deposit The Full Amount Of State Aid In An Eligible Pension Plan

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 Millvale 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 5, 2020



EUGENE A. DEPASQUALE  
Auditor General

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MILLVALE BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior LPE Report Recommendation

Millvale Borough has complied with the prior LPE report recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current engagement period, the borough reimbursed \$8,368 to the Commonwealth for the overpayment of state aid received in 2014.

MILLVALE BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan**

Condition: The municipality did not deposit the full amount of its 2019 state aid allocation into an eligible pension plan. The municipality received its 2019 state aid allocation in the amount of \$107,530 on September 18, 2019, but, as of the date of this report, only state aid totaling \$101,726 was deposited into an eligible pension plan.

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 full amount of the 2019 state aid was not deposited into an eligible pension plan because internal control procedures were not in effect to ensure the deposit of the full amount of state aid.

Effect: When state aid is not deposited into a pension plan account, 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 deposit the borough's remaining state aid allocation of \$5,804, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, into an eligible pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next engagement of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

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.

MILLVALE 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	\$ 28,037	\$ 36,457	\$ 38,280	\$ 51,768	\$ 54,356
Interest	81,719	81,179	86,677	87,220	94,432
Difference between expected and actual experience	-	(89,400)	-	(85,602)	-
Changes of assumptions	-	50,071	-	2,686	-
Benefit payments, including refunds of member contributions	(57,196)	(48,521)	(48,521)	(48,521)	(48,521)
Net Change in Total Pension Liability	<u>52,560</u>	<u>29,786</u>	<u>76,436</u>	<u>7,551</u>	<u>100,267</u>
Total Pension Liability - Beginning	1,022,044	1,074,604	1,104,390	1,180,826	1,188,377
Total Pension Liability - Ending (a)	<u>\$ 1,074,604</u>	<u>\$ 1,104,390</u>	<u>\$ 1,180,826</u>	<u>\$ 1,188,377</u>	<u>\$ 1,288,644</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ -	\$ 1,667	\$ -	\$ -	\$ 2,138
Contributions - state aid	22,903	31,367	23,410	32,872	26,625
Net investment income	55,464	(28,753)	65,154	174,543	(108,249)
Benefit payments, including refunds of member contributions	(57,196)	(48,521)	(48,521)	(48,521)	(48,521)
Administrative expense	(5,375)	(5,875)	(5,875)	(5,875)	(5,875)
Net Change in Plan Fiduciary Net Position	<u>15,796</u>	<u>(50,115)</u>	<u>34,168</u>	<u>153,019</u>	<u>(133,882)</u>
Plan Fiduciary Net Position - Beginning	1,202,196	1,217,992	1,167,877	1,202,045	1,355,064
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,217,992</u>	<u>\$ 1,167,877</u>	<u>\$ 1,202,045</u>	<u>\$ 1,355,064</u>	<u>\$ 1,221,182</u>
Net Pension Liability - Ending (a-b)	<u>\$ (143,388)</u>	<u>\$ (63,487)</u>	<u>\$ (21,219)</u>	<u>\$ (166,687)</u>	<u>\$ 67,462</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	113.3%	105.7%	101.8%	114.0%	94.8%
Estimated Covered Employee Payroll	\$ 200,394	\$ 284,127	\$ 255,556	\$ 331,258	\$ 314,601
Net Pension Liability as a Percentage of Covered Employee Payroll	(71.6%)	(22.3%)	(8.3%)	(50.3%)	21.4%

MILLVALE 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 7.75%, 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 (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net Pension Liability - 12/31/15	\$ 89,846	\$ (63,487)	\$ (191,194)
Net Pension Liability - 12/31/16	\$ 142,484	\$ (21,219)	\$ (157,787)
Net Pension Liability - 12/31/17	\$ (11,115)	\$ (166,687)	\$ (297,282)
Net Pension Liability - 12/31/18	\$ 236,492	\$ 67,462	\$ (74,475)

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>
2010	\$ 12,388	\$ 12,388	\$ -	\$ 294,718	4.2%
2011	17,721	17,721	-	338,983	5.2%
2012	13,350	13,350	-	271,024	4.9%
2013	14,483	14,483	-	280,520	5.2%
2014	22,903	22,903	-	200,394	11.4%
2015	33,034	33,034	-	284,127	11.6%
2016	23,410	23,410	-	255,556	9.2%
2017	32,872	32,872	-	331,258	9.9%
2018*	26,625	26,625	-	314,601	8.5%

\* The 2018 MMO has been satisfied due to the contribution of \$27,312 deposited in April 2019 and the contribution of \$2,216 deposited in May 2019. The total contribution of \$29,528 included the 2018 receivable contribution of \$26,625 plus \$2,903 interest on the late deposit.



MILLVALE BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(8.20%)
2017	14.91%
2016	5.76%
2015	(2.40%)
2014	4.78%

MILLVALE 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, 2015, 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)
01-01-15	\$ 1,179,373	\$ 1,035,275	\$ (144,098)	113.9%
01-01-17	1,284,613	1,097,910	(186,703)	117.0%
01-01-19	1,375,795	1,119,773	(256,022)	122.9%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or lost over a five-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.

MILLVALE 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.

MILLVALE 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0%

MILLVALE BOROUGH POLICE PENSION PLAN  
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