

COMPLIANCE AUDIT

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

May 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
Munhall Borough
Allegheny County
Munhall, PA 15120

We have conducted a compliance audit of the Munhall 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 all 4 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 benefit 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 Munhall 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Munhall 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 – Partial Compliance With Prior Audit Recommendation – Failure
To Timely Pay The Minimum Municipal Obligation Of The 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 Munhall 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.

May 6, 2019



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 Munhall 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 Munhall Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan for non-uniformed employees hired prior to January 1, 2012. The plan is locally controlled by the provisions of Ordinance No. 1564, 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 July 1, 1963. Active members are required to contribute 2 percent of compensation to the plan. As of December 31, 2015, the plan had 12 active members, 2 terminated members eligible for vested benefits in the future, and 18 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
Early Retirement	Attainment of age 60 and completion of 20 years of service.
Vesting	100% vesting available after 10 years of service.

Retirement Benefit:

A monthly benefit equal to 1.9% of Average Monthly Compensation (averaged over the final 60 months of employment) multiplied by years of service.

Survivor Benefit:

Before 10 Years of Service	Refund of contributions with interest.
After 10 Years of Service but Before Retirement Eligibility	If the participant dies after completing 10 years of service, the surviving spouse will receive the survivor's portion of the Accrued Benefit after reduction to a joint and 50% survivor annuity, payable at the participant's normal retirement date.
After Retirement Eligibility	The normal form of benefit payment is a life annuity with 10 years guaranteed. At retirement, the participant may select an optional form of benefit that is an actuarial equivalent of the normal form.

Service and Non-Service Related Disability Benefit:

For total and permanent disablement that occurs after the completion of 15 years of service and that qualifies for Social Security disability, a monthly benefit equal to the Accrued Benefit at date of disablement.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Munhall Borough has complied with the prior audit recommendations concerning the following:

- Untimely Deposit Of State Aid.

The municipality deposited its state aid for the years 2016, 2017 and 2018 within the 30 day grace period in accordance with Act 205;

- Failure To Deduct Member Contributions.

The borough established and implemented procedures to ensure that member contributions are deducted and deposited into the member's accounts of the non-uniformed money purchase plan; and

- Incorrect Date On AG 385 Form Resulting In An Underpayment Of State Aid.

During the current audit period, municipal officials complied with the instructions that accompanied Certification Forms AG 385 and accurately reported the required pension data for the non-uniformed defined benefit pension plan. However, the underlying issues were incorporated into the finding contained in the non-uniformed money purchase pension plan.

Partial Compliance With Prior Audit Recommendations

Munhall Borough has partially complied with the prior audit recommendations concerning the following:

- Failure To Timely Pay The Minimum Municipal Obligation Of The Plan.

The borough paid the outstanding 2014 MMO balance on March 28, 2016, with interest; however, plan officials continued to pay the annual MMO after the December 31 deadlines as further discussed in the finding and recommendation contained in this report.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Failure To Timely Pay
The Minimum Municipal Obligation Of The Plan**

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with the prior audit recommendation by depositing the outstanding 2014 MMO balance due the pension plan, with interest. However, a similar condition occurred during the current audit period. Plan officials again failed to fully pay their 2016, 2017 and 2018 MMOs by their respective December 31 deadlines, as required by Act 205. The municipality had unpaid MMO balances of \$99,050, \$22,539 and \$3,067 as of December 31, 2016, 2017 and 2018, respectively. And although the borough eventually deposited the outstanding MMO amounts due, the borough incurred interest penalties, totaling \$13,313, due to the untimely deposits of the plan’s MMOs.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality. Payment of the minimum obligation of the municipality shall be made by the municipality prior to December 31.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure that the plan’s MMO’s are paid timely in accordance with Act 205 and ensure compliance with the prior recommendation.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: Due to the municipality's failure to pay the 2016, 2017 and 2018 MMOs by the December 31, deadlines, the borough incurred additional interest penalties under Act 205 that would not have otherwise been required had the MMO been deposited timely.

Recommendation: We again recommend that plan officials establish and implement internal control procedures to ensure that future MMOs are paid timely in accordance with Act 205 requirements.

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

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

MUNHALL 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	\$ 3,534,176	\$ 4,215,791	\$ 681,615	83.8%
01-01-15	4,265,474	4,487,630	222,156	95.0%
01-01-17	4,784,113	5,327,422	543,309	89.8%

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. 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.

MUNHALL 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.

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	\$ 250,120	100.0%
2014	214,749	100.0%
2015	200,357	100.0%
2016	195,917	104.6%
2017	169,446	102.4%
2018	172,194	100.2%

MUNHALL 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, closed.
Remaining amortization period	5 years (aggregate).
Asset valuation method	Fair value, 4-year smoothing.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	5.0%

* Includes inflation at 2.75%

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
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