

COMPLIANCE AUDIT

Municipality of Bethel Park Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

September 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 Municipal Council
Municipality of Bethel Park
Allegheny County
Bethel Park, PA 15102

We have conducted a compliance audit of the Municipality of Bethel Park 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 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 whether retirement benefits calculated for all 7 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for all 3 of the plan members who elected to vest during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- 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.

The Municipality of Bethel Park contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the municipality's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Municipal officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Municipality of Bethel Park 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 municipality's internal controls as they relate to the municipality'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 Municipality of Bethel Park 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment 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 the Municipality of Bethel Park and, where appropriate, their responses have been included in the report. We would like to thank municipality officials for the cooperation extended to us during the conduct of the audit.

August 21, 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 Municipality of Bethel Park 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 Municipality of Bethel Park Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3-12-07A. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its non-uniformed employees. The plan was established November 1, 1964. Active members are required to contribute 4 percent of gross wages to the plan. As of December 31, 2018, the plan had 62 active members, 8 terminated members eligible for vested benefits in the future, and 42 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 and 15 years of service; if hired prior to January 1, 1993, age 65 and 5 years of service.
Early Retirement	Age 55 and the completion of 15 years of service.
Vesting	100% vesting available after 10 years of service

Retirement Benefit:

A monthly benefit payable for life equal to 45% (50% for participants retiring with 16 to 20 years of service, 55% for participants retiring with 21 to 25 years of service and 60% for participants retiring with at least 26 years of service) of compensation averaged over final 36 months of employment times the ratio of completed years of service from date of hire through retirement date to 15 years (ratio not to exceed 1.0).

Survivor Benefit:

Before 10 Years of Service: Refund of member contributions plus interest.

After 10 years of Service but before Retirement: The participant's spouse will receive the survivor's portion of the Accrued Benefit actuarially converted to a joint and 50% survivor annuity, reduced for early commencement.

After Retirement: The Normal Form of payment is a life annuity, with payments guaranteed to be not less than the participant's contributions plus interest. An optional form of benefit payment may be selected by the participant at retirement that is actuarially equivalent to the Normal Form.

Disability Benefit:

None

MUNICIPALITY OF BETHEL PARK NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The municipality failed to certify an eligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2017. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to implement adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the municipality’s state aid allocation was based on the unit value, the municipality received an underpayment of state aid amounting to \$4,588 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2017	1	\$ 4,588	\$ 4,588

Although the municipality will be reimbursed for the underpayment of state aid due to the municipality’s certification error, the full amount of the 2017 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials implement adequate and consistent internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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.

MUNICIPALITY OF BETHEL PARK NON-UNIFORMED 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, 2015 AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 348,162	\$ 336,566	\$ 350,461
Interest	1,037,820	1,084,681	1,139,298
Difference between expected and actual experience	-	(95,791)	-
Changes of assumptions	-	-	-
Benefit payments, including refunds of member contributions	(635,549)	(672,678)	(742,435)
Net Change in Total Pension Liability	<u>750,433</u>	<u>652,778</u>	<u>747,324</u>
Total Pension Liability – Beginning	<u>13,801,476</u>	<u>14,551,909</u>	<u>15,204,687</u>
Total Pension Liability – Ending (a)	<u>\$ 14,551,909</u>	<u>\$ 15,204,687</u>	<u>\$ 15,952,011</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 566,305	\$ 653,896	\$ 659,431
Contributions – member	131,903	138,109	136,666
Net investment income	1,071,812	18,263	1,186,444
Benefit payments, including refunds of member contributions	(635,549)	(672,679)	(742,435)
Investment and administrative expense	(68,080)	(86,659)	(78,734)
Net Change in Plan Fiduciary Net Position	<u>1,066,391</u>	<u>50,930</u>	<u>1,161,372</u>
Plan Fiduciary Net Position – Beginning	<u>11,467,932</u>	<u>12,534,323</u>	<u>12,585,253</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 12,534,323</u>	<u>\$ 12,585,253</u>	<u>\$ 13,746,625</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,017,586</u>	<u>\$ 2,619,434</u>	<u>\$ 2,205,386</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.14%	82.77%	86.17%
Estimated Covered Employee Payroll	\$ 3,218,217	\$ 3,389,482	\$ 3,291,788
Net Pension Liability as a Percentage of Covered Employee Payroll	62.69%	77.28%	67.00%

MUNICIPALITY OF BETHEL PARK NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 397,115	\$ 396,056
Interest	1,190,575	1,244,435
Difference between expected and actual experience	(728,724)	-
Changes of assumptions	691,414	-
Benefit payments, including refunds of member contributions	(891,088)	(845,063)
Net Change in Total Pension Liability	<u>659,292</u>	<u>795,428</u>
Total Pension Liability – Beginning	<u>15,952,011</u>	<u>16,611,303</u>
Total Pension Liability – Ending (a)	<u>\$ 16,611,303</u>	<u>\$ 17,406,731</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 578,845	\$ 605,465
Contributions – member	140,984	150,166
Net investment income	1,802,201	(494,927)
Benefit payments, including refunds of member contributions	(891,088)	(845,063)
Investment and administrative expense	(78,268)	(85,383)
Net Change in Plan Fiduciary Net Position	<u>1,552,674</u>	<u>(669,742)</u>
Plan Fiduciary Net Position – Beginning	<u>13,746,625</u>	<u>15,299,299</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 15,299,299</u>	<u>\$ 14,629,557</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,312,004</u>	<u>\$ 2,777,174</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.10%	84.05%
Estimated Covered Employee Payroll	\$ 3,568,229	\$ 3,742,743
Net Pension Liability as a Percentage of Covered Employee Payroll	36.77%	74.20%

MUNICIPALITY OF BETHEL PARK NON-UNIFORMED 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 municipality as of December 31, 2105, 2016, 2017, and 2018, calculated using the discount rate of 7.50%, as well as what the municipality'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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/15	\$ 4,312,902	\$ 2,619,434	\$ 1,156,878
Net Pension Liability – 12/31/16	\$ 3,953,694	\$ 2,205,386	\$ 694,001
Net Pension Liability – 12/31/17	\$ 3,202,748	\$ 1,312,004	\$ (306,573)
Net Pension Liability – 12/31/18	\$ 4,731,952	\$ 2,777,174	\$ 1,102,246

MUNICIPALITY OF BETHEL PARK NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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
2009	\$ 236,958	\$ 236,968	\$ (10)	\$ -	N/A
2010	475,905	417,223	58,682	3,195,032	13.06%
2011	482,195	423,513	58,682	-	N/A
2012	483,473	483,473	-	3,098,894	15.60%
2013	567,175	567,175	-	-	N/A
2014	565,349	566,305	(956)	3,218,217	17.60%
2015	653,896	653,896	-	3,389,482	19.29%
2016	659,431	659,431	-	3,291,788	20.03%
2017	578,845	578,845	-	3,568,229	16.22%
2018	605,465	605,465	-	3,742,743	16.18%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

For 2010 and 2011, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(3.29)%
2017	13.38%
2016	9.54%
2015	15.00%
2014	9.47%

MUNICIPALITY OF BETHEL PARK 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	\$ 9,627,795	\$ 13,098,516	\$ 3,470,721	73.5%
01-01-15	11,832,632	14,456,118	2,623,486	81.9%
01-01-17	13,954,656	15,914,701	1,960,045	87.7%

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.

MUNICIPALITY OF BETHEL PARK 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.

MUNICIPALITY OF BETHEL PARK 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	9 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.75%

* Includes inflation at 3.0%

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