

COMPLIANCE AUDIT

Shaler Township Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

March 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Commissioners
Shaler Township
Allegheny County
Glenshaw, PA 15116

We have conducted a compliance audit of the Shaler Township Police Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 finding contained in our prior 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 finding contained in our prior 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 plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, 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.

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

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shaler Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected

officials, and performed procedures to the extent necessary 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.

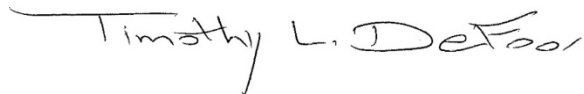
The results of our procedures indicated that, in all significant respects, the Shaler Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Partial Compliance With Prior Recommendation – Failure To
Determine Impact On State Aid Allocations Attributable To
Excess Benefits Provided

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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 Shaler Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
March 10, 2023

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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.

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 Shaler Township Police Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Shaler Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1854, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established May 1, 1960. Active members are required to contribute eight (8.0) percent of compensation to the plan. As of December 31, 2021, the plan had 26 active members, no terminated members eligible for vested benefits in the future, and 33 retirees receiving pension benefits.

SHALER TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

· Pension Benefits Not In Compliance With Act 600 Provisions

Prior audit reports (*covering the periods January 1, 2004, to December 31, 2006 and January 1, 2007, to December 31, 2008*), disclosed that the pension plan's governing document contained benefit provisions that conflicted with the collective bargaining agreement (CBA) between the police officers and the township and Act 600 and the township subsequently eliminated these inconsistencies by adopting a definition of salary which complied with Act 600 for police officers hired after April 1, 2001. However, it was noted that pension calculations for police officers hired prior to April 1, 2001, could include unused sick leave earned outside the pension computation period. And, although the township did not receive state aid attributable to excess benefits being provided to retirees during prior audit periods because the township received its state aid allocations based on unit value, the Department would continue to monitor the impact of the excess benefits being paid to retirees on the township's future state aid allocations.

During the current audit period, as part of the department's on-going efforts to monitor the impact of the excess benefits on subsequent allocations of state aid to the township, it was determined that a total of 14 retirees were currently receiving pension benefits in excess of Act 600 and it was previously recommended that the township, with assistance from the pension plan's actuary, determine the impact of the excess benefit payments on the township's state aid allocations received in subsequent periods by preparing and submitting the Supplemental Actuarial Information (Form AG MP-1) and determining the impact on state aid received by the township in subsequent periods (*refer to Partial Compliance With Prior Recommendation section below*).

Partial Compliance With Prior Recommendation

Shaler Township partially complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

· Failure To Determine Impact On State Aid Allocations Attributable To Excess Benefits Provided

During the current audit period, the township consulted with the actuary who prepared and completed Form AG MP-1 as of January 1, 2015, and January 1, 2017, and submitted the forms to the Department. However, the township and the actuary failed to determine the impact of the submitted information on the municipality's state aid allocations received during 2016 and 2017 as was also recommended, as further discussed in the Finding and Recommendation section of this report.

SHALER TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Recommendation – Failure To Determine Impact
On State Aid Allocations Attributable To Excess Benefits Provided**

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by preparing the Form AG MP-1 as of January 1, 2015, and January 1, 2017, and submitting these forms to the department. However, the township failed to determine the impact of the reported excess benefits paid (*Form AG MP-1 as of January 1, 2015*), on the township's state aid allocations received during 2016 and 2017. Based on a calculation prepared by this department, it was estimated that the township received a total amount of excess state aid during the years 2016 and 2017, in the total amount of \$62,274. A similar condition occurred during the current audit period. The township submitted Form AG MP-1 (*as of January 1, 2017*), but the township again failed to determine the impact attributable to the excess benefits on the state aid allocations received by the township during the years 2018 and 2019. Based on a calculation prepared by this department, it was estimated that the township received additional excess state aid in the total amount of \$71,066 during the years 2018 and 2019. Moreover, the township failed to prepare and submit Form AG MP-1 as of January 1, 2019, and January 1, 2021, and determine the impact of the excess benefits paid on the state aid allocations received during 2020, 2021 and 2022, accordingly.

Criteria: As disclosed in the prior audit report, to the extent that a municipality is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits are deemed ineligible for funding with state pension aid and as such, municipal officials are required to consult with the plan's actuary and determine whether to prepare Form AG-MP-1 and submit the completed form to the Department to determine the impact of the excess benefits on the municipality's annual state aid allocation. If it is determined the excess benefits had an impact on the municipality's state aid after the submission of this information, the plan's actuary would then be required to contact the Municipal Pension & Fire Relief Programs Unit to verify any overpayment of state aid received and plan officials would be required to reimburse the overpayment to the Commonwealth.

Cause: Plan officials again failed to timely consult with the plan's actuary to determine whether Form AG-MP-1 was also required to be prepared and submitted to the Department to determine the impact of the excess benefits on the municipality's state aid allocations for the years 2020, 2021 and 2022 and ensure compliance with the prior recommendation.

SHALER TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued):

Effect: The township received excess state aid amounting to \$133,340 during the years 2016 through 2019. In addition, because the township’s state aid allocation is determined, in part, by the information contained in the plan’s actuarial valuation report, the correct inclusion of excess benefits in the actuarial valuation reports, valued as of January 1, 2019, and January 1, 2021, and the township’s continued failure to timely determine the impact of the excess benefits on its state aid allocations through the timely preparation of Form AG-MP 1 (*as of January 1, 2019 and January 1, 2021*), by the plan’s actuary may have resulted in additional excess state aid allocated to the township during the years 2020, 2021 and 2022. However, the impact was not known as of the date of this report.

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the township return the excess state aid received during the years 2016 through 2019, amounting to \$133,340, to the Commonwealth, with interest compounded annually from the date of receipt to the date of repayment, at a rate earned by the pension plan. A check in this amount should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check. We also recommend that plan officials, with assistance from the pension plan’s actuary, determine the impact of the excess benefit payments on the township’s state aid allocations received during the years 2020, 2021 and 2022 and submit this information to the Department. After the submission of this information, the plan’s actuary should contact the Municipal Pension & Fire Relief Programs Unit to verify any overpayment of state aid received and the township should reimburse the overpayment to the Commonwealth, accordingly. A check in the determined amount, with interest compounded annually from the date of receipt to the date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

If the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

SHALER TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, to the extent that the township remains contractually obligated to pay benefits to retirees in excess of those authorized by Act 600 and the excess benefit reflected in the Act 205 actuarial valuation report for the plan and funded in accordance with Act 205 funding standards, the excess benefits will be deemed ineligible for funding with state pension aid and we again recommend that municipal officials timely consult the plan's actuary and determine whether to prepare future Form AG-MP-1s and submit the completed forms to the Department in a timely manner. If it is determined the excess benefits had an impact on the township's future state aid allocations after the submission of this information, the plan's actuary should contact the Department to verify the overpayments of state aid received and the township should reimburse such overpayments to the Commonwealth, accordingly.

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.

SHALER TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

SHALER TOWNSHIP 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, 2017, 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)
01-01-17	\$ 21,305,983	\$ 20,524,796	\$ (781,187)	103.8%
01-01-19	21,796,524	21,974,801	178,277	99.2%
01-01-21	23,698,738	23,660,361	(38,377)	100.2%

Note: The market values of the plan’s assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. 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.

SHALER TOWNSHIP 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.

SHALER TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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>
2012	\$ 147,012	\$ 171,653	\$ (24,641)	\$ 2,238,800	7.67%
2013	247,623	248,407	(784)	2,238,800	11.10%
2014	196,866	196,866	-	2,368,197	8.31%
2015	205,720	205,720	-	2,382,789	8.63%
2016	59,081	59,081	-	2,412,611	2.45%
2017	76,189	76,189	-	2,443,049	3.12%
2018	189,042	189,042	-	2,419,725	7.81%
2019	182,312	182,312	-	2,551,248	7.15%
2020	190,464	298,019	(107,555)	2,458,173	12.12%
2021	305,172	305,172	-	2,651,155	11.51%

SHALER TOWNSHIP 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, 2021
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	4-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	3.75%
Cost-of-living adjustments	Effective on each anniversary of retirement, a retiree will receive an increase in the monthly benefit equal to the percentage increase in the CPI. The total of all increases may not exceed 30% of original benefit, nor may total benefit exceed 75% of the average monthly salary used to calculate the original benefit.

SHALER TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. David Shutter
President, Board of Township Commissioners

Mr. Christopher Lovato
Township Manager

Ms. Judith L. Kording
Assistant Township Manager/Director of Finance

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.