

# COMPLIANCE AUDIT

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## City of Beaver Falls Police Pension Plan Beaver County, Pennsylvania For the Period January 1, 2012 to December 31, 2013

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May 2015



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 City Council  
City of Beaver Falls  
Beaver County  
Beaver Falls, PA 15010

We have conducted a compliance audit of the City of Beaver Falls Police Pension Plan for the period January 1, 2012 to December 31, 2013. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.
- × We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- × We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period.

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

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Beaver Falls Police 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 city's internal controls as they relate to the city'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 City of Beaver Falls Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

As previously noted, one of the objectives of our audit of the City of Beaver Falls Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

| <u>Level</u> | <u>Indication</u> | <u>Funding Criteria</u> |
|--------------|-------------------|-------------------------|
| I            | Minimal distress  | 70-89%                  |
| II           | Moderate distress | 50-69%                  |
| III          | Severe distress   | Less than 50%           |

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio is 67.2% as of January 1, 2013**, which is the most recent data available. **Based on this information, and the funding status of the city's firemen's and employees' pension plans, the Public Employee Retirement Commission issued a notification that the city is currently in Level II moderate distress status.** We encourage city officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of the City of Beaver Falls and, where appropriate, their responses have been included in the report.

April 8, 2015



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 City of Beaver Falls Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission 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 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Beaver Falls Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 858, as amended, adopted pursuant to Act 317. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established May 12, 1941. Active members are required to contribute 4 percent of members' wages, plus \$1 per month for the service increment, to the plan. As of December 31, 2013, the plan had 18 active members, no terminated members eligible for vested benefits in the future, and 31 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2013, selected plan benefit provisions are as follows:

### Eligibility Requirements:

|                   |  |
|-------------------|--|
| Normal Retirement | Age 50 and 25 years of service.                    |
| Early Retirement  | None   |
| Vesting           | A member is 100% vested after 12 years of service. |

### Retirement Benefit:

Benefit equals 50% of greater of Monthly Pay or Average Monthly Pay over highest 60 months, plus a service increment of 1/40 of the monthly pension for each completed year of service in excess of the minimum required, to a maximum of \$100.

### Survivor Benefit:

|                               |   |
|-------------------------------|---|
| Before Retirement Eligibility | Refund of member contributions.   |
| After Retirement Eligibility  | A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death. |

### Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the permanent disability was incurred payable monthly for life.

CITY OF BEAVER FALLS POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

The City of Beaver Falls has complied with the prior audit recommendations concerning the following:

- Failure To Aggregate Pension Funds Pursuant To Act 44 Provisions

City officials implemented the mandatory aggregation remedy contained in Act 44 of 2009 during the year 2013.

- Disability Pension Benefit Not Properly Documented.

City officials obtained appropriate documentation verifying that the disability benefit granted was properly authorized in accordance with the Third Class City Code and the plan's governing document.



CITY OF BEAVER FALLS 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, 2009, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        | (5)                       | (6)   |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability as a<br>% of Payroll<br>[(b-a)/(c)] |
| 01-01-09                       | \$ 4,990,010                           | \$ 7,193,067   | \$ 2,203,057   | 69.4%                      | \$ 916,904                | 240.3%  |
| 01-01-11                       | 5,013,659                              | 7,764,066  | 2,750,407  | 64.6%                      | 1,021,731                 | 269.2%  |
| 01-01-13                       | 5,531,853                              | 8,229,081  | 2,697,228  | 67.2%                      | 1,201,078                 | 224.6%  |

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 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.

CITY OF BEAVER FALLS 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF BEAVER FALLS POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2008                   | \$ 418,140                   | 100.0%                 |
| 2009                   | 417,593                      | 100.6%                 |
| 2010                   | 325,623                      | 133.9%                 |
| 2011                   | 438,653                      | 100.0%                 |
| 2012                   | 472,261                      | 127.1%                 |
| 2013                   | 568,177                      | 127.4%                 |

CITY OF BEAVER FALLS POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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, 2013              |
| Actuarial cost method         | Entry age normal             |
| Amortization method           | Level dollar, closed         |
| Remaining amortization period | 13 years                     |
| Asset valuation method        | Fair value, 4-year smoothing |
| Actuarial assumptions:        |                              |
| Investment rate of return     | 7.0%                         |
| Projected salary increases    | 5.5%                         |

CITY OF BEAVER FALLS POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

City of Beaver Falls Police Pension Plan  
Beaver County  
715 Fifteenth Street  
Beaver Falls, PA 15010

|                                   |              |
|-----------------------------------|--------------|
| The Honorable George S. Quay, III | Mayor        |
| Mr. Stephen L. Johnson            | City Manager |
| Ms. Paula J. Burdine              | City Clerk   |

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