

LIMITED PROCEDURES ENGAGEMENT

Allegheny County Deputy Sheriffs' Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

November 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Directors
Allegheny County Deputy Sheriffs' Pension Plan
Allegheny County
Pittsburgh, PA 15230

We conducted a Limited Procedures Engagement (LPE) of the Allegheny County Deputy Sheriffs' Pension Plan for the period January 1, 2015 to December 31, 2017 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2012 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether retirement benefits calculated pursuant to the supplemental pension plan for selected plan members who retired 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 pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Allegheny County Deputy Sheriffs' Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Board of Directors for the Allegheny County Deputy Sheriffs' Pension Plan 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. 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 58.6% as of January 1, 2016, which is the most recent data available.** We encourage the Board of Directors to monitor the funding of the deputy sheriffs' pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of the Allegheny County Deputy Sheriffs' Pension Plan and, where appropriate, their responses have been included in this report. We would like to thank plan officials for the cooperation extended to us during the conduct of this LPE.

October 23, 2018


EUGENE A. DEPASQUALE
Auditor General

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BACKGROUND

The Allegheny County Deputy Sheriffs' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a plan document ratified on February 9, 1999, as amended. The pension plan was established to provide pension benefits to the sheriff and eligible deputy sheriffs and their beneficiaries in addition to any pension benefits provided through the Allegheny County Employees' Retirement System. The plan is also subject to the provisions of Act 293 of 1972 (P.L. 1383, No. 293).

ALLEGHENY COUNTY DEPUTY SHERIFFS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 and 3 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 | \$ 385,168 | \$ 412,130 | \$ 385,768 |
| Interest | 1,441,162 | 1,505,030 | 1,571,998 |
| Actuarial (gain)/loss | 86,250 | 156,610 | - |
| Benefit payments, including refunds of member contributions | <u>(980,980)</u> | <u>(1,046,325)</u> | <u>(1,161,502)</u> |
| Net Change in Total Pension Liability | 931,600 | 1,027,445 | 796,264 |
| Total Pension Liability - Beginning | <u>20,885,931</u> | <u>21,817,531</u> | <u>22,844,976</u> |
| Total Pension Liability - Ending (a) | <u><u>\$21,817,531</u></u> | <u><u>\$22,844,976</u></u> | <u><u>\$23,641,240</u></u> |
| Plan Fiduciary Net Position | | | |
| Contributions – employer | \$ 1,185,040 | \$ 1,164,281 | \$ 1,300,848 |
| Net investment income | 772,777 | 119,518 | 719,709 |
| Benefit payments, including refunds of member contributions | (980,980) | (1,046,325) | (1,161,502) |
| Insurance premiums | (7,947) | (9,135) | 45 |
| Actuarial cost | (10,000) | - | (14,020) |
| Other | <u>(2,930)</u> | <u>(170,061)</u> | <u>(9,580)</u> |
| Net Change in Plan Fiduciary Net Position | 955,960 | 58,278 | 835,500 |
| Plan Fiduciary Net Position - Beginning | <u>12,372,926</u> | <u>13,328,886</u> | <u>13,387,164</u> |
| Plan Fiduciary Net Position - Ending (b) | <u><u>\$13,328,886</u></u> | <u><u>\$13,387,164</u></u> | <u><u>\$14,222,664</u></u> |
| Net Pension Liability - Ending (a-b) | <u><u>\$ 8,488,645</u></u> | <u><u>\$ 9,457,812</u></u> | <u><u>\$ 9,418,576</u></u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 61.09% | 58.60% | 60.16% |
| Estimated Covered Employee Payroll | \$13,227,479 | \$12,902,745 | \$12,484,960 |
| Net Pension Liability as a Percentage of Covered Employee Payroll | 64.17% | 73.30% | 75.44% |

ALLEGHENY COUNTY DEPUTY SHERIFFS' 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 Allegheny County Deputy Sheriffs' Pension Plan as of December 31, 2014, 2015, and 2016, calculated using the discount rate of 7.00%, as well as what the Allegheny County Deputy Sheriffs' Pension Plan'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 (6.00%) | Current Discount Rate (7.00%) | 1% Increase (8.00%) |
|----------------------------------|------------------------|-------------------------------------|------------------------|
| Net Pension Liability - 12/31/14 | \$ 11,211,359 | \$ 8,488,645 | \$ 6,206,282 |
| Net Pension Liability - 12/31/15 | \$ 12,308,746 | \$ 9,457,812 | \$ 7,067,967 |
| Net Pension Liability - 12/21/16 | \$ 12,319,229 | \$ 9,418,576 | \$ 7,051,095 |

SCHEDULE OF INVESTMENT RETURNS

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

| | |
|------|---------|
| 2016 | 5.50% |
| 2015 | (0.36)% |
| 2014 | 6.37% |

ALLEGHENY COUNTY DEPUTY SHERIFFS' 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 293 biennially. The historical information, beginning as of January 1, 2012, 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) |
| 01-01-12 | \$ 8,987,344 | \$ 19,449,320 | \$ 10,461,976 | 46.2% |
| 01-01-14 | 12,372,926 | 20,885,931 | 8,513,005 | 59.2% |
| 01-01-16 | 13,387,164 | 22,844,976 | 9,457,812 | 58.6% |

ALLEGHENY COUNTY DEPUTY SHERIFFS' 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.

ALLEGHENY COUNTY DEPUTY SHERIFFS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|--------------|------------------------|
| 2012 | \$ 1,101,442 | None |
| 2013 | 1,204,151 | None |
| 2014 | 1,185,040 | None |
| 2015 | 1,164,282 | None |
| 2016 | 1,300,848 | None |
| 2017 | 1,356,971 | None |

ALLEGHENY COUNTY DEPUTY SHERIFFS' PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES

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, 2016 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 9 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases | Not disclosed |

ALLEGHENY COUNTY DEPUTY SHERIFFS' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. William McKellar
President, Board of Directors

Ms. Barbara Sparrow
Treasurer

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.