

# COMPLIANCE AUDIT

---

## Cheswick Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

---

May 2018



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 Borough Council  
Cheswick Borough  
Allegheny County  
Cheswick, PA 15024

We have conducted a compliance audit of the Cheswick Borough Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2017. 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 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 the plan member 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 individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- 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.
- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Cheswick Borough contracted with an independent certified public accounting firm for an audit of its financial statements for the year ended December 31, 2016, prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Cheswick 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 Cheswick Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Cheswick 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 17, 2018

  
EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	3
Supplementary Information .....	4
Report Distribution List .....	10

## **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 Cheswick 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 Cheswick Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 727-C, 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 January 1, 1966. Active members are required to contribute 1 percent of compensation to the plan. As of December 31, 2017, the plan had 1 active member, 1 terminated member eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

**BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Attainment of age 60.
Early Retirement	Attainment of age 55 and 10 years of service.
Vesting	A member is 20% vested after 3 years of vesting service plus 20% per year thereafter, up to 100%.

Retirement Benefit:

The greater of (A) 2.0% of average compensation (the monthly average of total pay received for the 36 latest months prior to normal retirement date), multiplied by accrual service or (B) required contributions account.

Survivor Benefit:

Before Retirement Eligibility	The greater of 50% of the accrued benefit or the required contribution account, payable to spouse of qualified married participant. A single sum equal to the required contribution account is payable to the beneficiary who is not eligible for survivor annuity benefits.
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.

Disability Benefit:

Service Related	Benefit equals 50% of average compensation on the day before the month disability benefit begins, minimum benefit of \$20.
Non-Service Related	Same as Service Related.

CHESWICK BOROUGH NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance with Prior Audit Recommendations

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

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

In July 2017, the borough deposited \$184,607 into the plan for the remaining 2014 and 2015 minimum municipal obligation balances due, including interest.

- Failure To Deposit Member Contributions

In April 2017, the borough deposited the delinquent member contributions to the plan, totaling \$2,202, for the years 2013, 2014, and 2015.



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

The supplementary information contained on Pages 4 through 6 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	\$ 28,317	\$ 31,058	\$ 32,533
Interest	85,994	93,896	101,036
Difference between expected and actual experience	-	(16,454)	-
Changes of assumptions	-	62,852	-
Benefit payments, including refunds of member contributions	(23,273)	(30,346)	(38,248)
Net Change in Total Pension Liability	91,038	141,006	95,321
Total Pension Liability - Beginning	1,058,242	1,149,280	1,290,286
Total Pension Liability - Ending (a)	<u>\$ 1,149,280</u>	<u>\$ 1,290,286</u>	<u>\$ 1,385,607</u>
Plan Fiduciary Net Position			
Contributions – employer*	\$ 89,756	\$ 95,563	\$ 97,490
Contributions – member	1,073	1,459	1,863
Net investment income	30,366	(16,185)	34,008
Benefit payments, including refunds of member contributions	(23,273)	(30,346)	(38,248)
Administrative expense	(5,375)	(5,375)	(5,500)
Net Change in Plan Fiduciary Net Position	92,547	45,116	89,613
Plan Fiduciary Net Position - Beginning	836,183	928,730	973,846
Plan Fiduciary Net Position - Ending (b)	<u>\$ 928,730</u>	<u>\$ 973,846</u>	<u>\$ 1,063,459</u>
Net Pension Liability - Ending (a-b)	<u>\$ 220,550</u>	<u>\$ 316,440</u>	<u>\$ 322,148</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.81%	75.48%	76.75%
Estimated Covered Employee Payroll	\$ 153,870	\$ 156,897	\$ 105,804
Net Pension Liability as a Percentage of Covered Employee Payroll	143.33%	201.69%	304.48%

\* Employer Contributions include interest paid for late deposits of the 2014, 2015, and 2016 minimum municipal obligations.

CHESWICK BOROUGH 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 borough as of December 31, 2015 and 2016, calculated using the discount rate of 7.75%, as well as what the borough'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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability - 12/31/15	\$ 486,857	\$ 316,440	\$ 173,254
Net Pension Liability - 12/31/16	\$ 500,932	\$ 322,148	\$ 171,759

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
2008	\$ 23,124	\$ 23,823	\$ (699)	\$ 146,188	16.30%
2009	24,045	26,038	(1,993)	152,688	17.05%
2010	64,232	64,232	-	142,735	45.00%
2011	55,768	55,768	-	149,573	37.28%
2012	66,699	67,108	(409)	185,066	36.26%
2013	68,559	68,559	-	140,816	48.69%
2014	78,154	78,154	-	153,870	50.79%
2015	78,687	78,687	-	156,897	50.15%
2016	77,927	77,927	-	105,804	73.65%
2017	79,076	79,076	-	111,964	70.63%

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

SCHEDULE OF INVESTMENT RETURNS

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

2016	4.69%
2015	(1.80%)
2014	4.23%

CHESWICK 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	\$ 666,934	\$ 975,034	\$ 308,100	68.4%
01-01-15	899,758	1,195,678	295,920	75.3%
01-01-17	1,129,029	1,174,528	45,499	96.1%

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 5-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.

CHESWICK 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.

CHESWICK BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTERS 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	4 years
Asset valuation method	Fair value – 5 year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75%
Cost-of-living adjustments	3.0%

CHESWICK BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable Daniel Carroll**  
Mayor

**Mr. Paul Jack**  
Council President

**Mr. Michael Girardi**  
Council Vice-President

**Ms. Catherine Crail**  
Councilwoman

**Ms. Kathleen Gillard**  
Councilwoman

**Mr. Robert Kristof**  
Councilman

**Mr. Frank Meledandri**  
Councilman

**Mr. Ian Fitzgerald**  
Chief Administrative Officer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).