

COMPLIANCE AUDIT

Carnegie Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

April 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Carnegie Borough
Allegheny County
Carnegie, PA 15106

We have conducted a compliance audit of the Carnegie Borough Police Pension Plan for the period January 1, 2017 to December 31, 2020. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings 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 findings 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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 provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Carnegie Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Carnegie Borough 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 Carnegie Borough 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 findings further discussed later in this report:

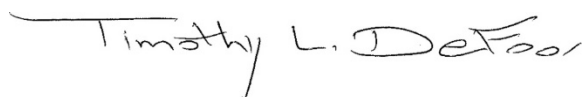
Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inconsistent Pension Benefit Provisions

Finding No. 2 – Noncompliance With Prior Audit Recommendation –
Improper Reduction Of Members' Contributions

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations 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. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 76.1% as of January 1, 2015, to a ratio of 64.3% as of January 1, 2019**, which is the most recent data available. We encourage borough 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 Carnegie 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.



Timothy L. DeFoor
Auditor General
April 4, 2022

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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 Carnegie Borough 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. 53, No. 600), as amended, 53 P.S. § 761 et seq.

The Carnegie Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2257, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1957. Active members are required to contribute 5 percent of compensation to the plan; however, members contributed only at a rate of 2 percent during the audit period. As of December 31, 2020, the plan had 13 active members, 1 terminated member eligible for vested benefits in the future, and 10 retirees receiving pension benefits from the plan.

CARNEGIE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Carnegie Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Benefit Provisions
- Improper Reduction Of Members' Contributions

CARNEGIE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit Provisions

Condition: As disclosed in the prior audit report, the Normal Retirement Benefit eligibility provisions are inconsistent among the pension plan’s governing documents with respect to an age requirement which is required by Act 600. The inconsistencies are as follows:

Ordinance No. 2130, effective May 11, 1999, contains an age requirement. Section 5.1(a) of Ordinance No. 2130 states, in part:

Each Participant shall be entitled to normal retirement benefits provided he/she retires on or after his Normal Retirement Date, which shall be determined as follows:

- (i) He or she commenced employment after December 21, 1965, has completed 25 years of total service as a full-time employee for the Borough of Carnegie, and has attained the age of 55 years.

Ordinance No. 2257, effective for participants who terminate employment on or after January 1, 2006, does not contain an age requirement. Section 5.1(a) of Ordinance No. 2257 states, in part:

Each Participant shall be entitled to normal retirement benefits provided he/she retires on or after his Normal Retirement Date, which shall be determined as follows:

- (i) The Participant has completed 25 years of total service as a full-time police employee for the Borough of Carnegie.

Ordinance No. 2338, effective for participants electing to enter into the Deferred Retirement Option Plan (DROP) on or after April 22, 2010, contains an age requirement. Ordinance No. 2338 states:

Section 11.1 – Definition of DROP Participant: An employee and Participant in the Plan who attains the later of age 55 and 25 years of service, and who has elected to participate in the DROP program.

Section 11.2 – Eligibility: Effective April 22, 2010, Participants in the Borough of Carnegie Police Pension Plan that have not retired prior to the implementation of the DROP program, may enter into the DROP on the first day of any month following the attainment of the later of age 55 and 25 years of service.

CARNEGIE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The collective bargaining agreements in effect for the periods January 1, 2015 to December 31, 2018, and January 1, 2019 to December 31, 2023, at Article 15 state:

All regular full time police officers shall receive pension benefits in accordance with the Carnegie Borough Uniform Employees Pension Plan Document.

Lastly, the Actuarial Valuation Report Form Type C, with a valuation date of January 1, 2019, submitted to the Municipal Pension Reporting Program, reports the following Retirement Benefit provisions.

40% of Final Average Earnings after attainment of 20 years of service
50% of Final Average Earnings after attainment of 25 years of service
50% of Final Average Earnings after attainment of 25 years of service and age 55
Final Average Earnings = average of the final 36 months of employment

Criteria: Section 3 of Act 600 states, in part:

Each ordinance or resolution establishing a police pension fund shall prescribe a minimum period of total service in the aggregate of twenty-five years in the same borough, town, township or regional police department and shall fix the age of the members of the force at fifty-five years, or, if an actuarial study of the cost shows that such reduction in age is feasible, may fix the age of the members of the force at fifty years, after which they may retire from active duty.... (Emphasis added)

In addition, a governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: As noted in the prior audit report, the collective bargaining agreement for the period January 1, 2004 to December 31, 2007, included a pension benefit provision that incorrectly applied Act 24 of 1998, which amended Act 600. The collective bargaining agreement eliminated the age requirement for retirement. The benefit provision was then incorporated into the pension plan via Ordinance No. 2257. During the current audit period, municipal officials failed to take action to comply with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

CARNEGIE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that municipal officials consult with their solicitor and pension plan consultant to clarify the plan’s governing document as necessary to clearly reflect all benefit obligations of the pension plan, eliminate inconsistencies among the various plan documents and ensure that all benefits are in accordance with Act 600.

Management’s Response: Municipal officials agreed with the finding without exception and indicated that the finding will be addressed with the borough solicitor after the audit report is released.

Auditor’s Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Improper Reduction Of Members’ Contributions

Condition: As previously noted in the Background section of this report, the Carnegie Borough Police Pension Plan is locally controlled by the provisions of Ordinance No. 2257, as amended, adopted pursuant to Act 600. Section 6(a) of Act 600 provides that where police officers are not covered by Social Security, members shall pay into the fund, monthly, an amount equal to not less than 5 percent nor more than 8 percent of monthly compensation. However, pursuant to Section 6(c) of Act 600, municipalities have the option to annually reduce or eliminate members’ contributions through the adoption of an ordinance or resolution. The prior audit report disclosed that the governing body of the municipality failed to annually reduce members’ contributions in accordance with Act 600 provisions during the prior audit period, and this condition persisted during the current audit period.

Criteria: Section 6(c) of Act 600 states, in part:

The governing body of the borough, town, township or regional police department may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.

Cause: Plan officials failed to take action to comply with the prior audit recommendation.

Effect: Although members did contribute to the plan at a reduced rate during the audit period, members’ contributions were not annually reduced in accordance with Act 600 provisions.

CARNEGIE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that the municipality either annually reduce members' contributions in accordance with Act 600, or reinstate the collection of members' contributions in accordance with the rate approved by the municipality.

Management's Response: Municipal officials agreed with the finding without exception and indicated that the finding will be addressed with the borough solicitor after the audit report is released.

Auditor's Conclusion: We are concerned that the municipality has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

CARNEGIE BOROUGH 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, 2015, 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)
01-01-15	\$ 3,169,512	\$ 4,167,173	\$ 997,661	76.1%
01-01-17	3,103,102	4,676,305	1,573,203	66.4%
01-01-19	3,310,939	5,147,577	1,836,638	64.3%

Note: The market value of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing method described in Section 210 of Act 205, as amended. 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.

CARNEGIE BOROUGH 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.

CARNEGIE BOROUGH 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>
2014	\$ 163,790	\$ 163,790	\$ -	\$ 994,441	16.5%
2015	185,065	185,065	-	1,023,489	18.1%
2016	187,680	187,680	-	966,168	19.4%
2017	187,072	187,072	-	1,094,172	17.1%
2018	207,771	207,771	-	1,200,759	17.3%
2019	276,711	276,711	-	1,222,471	22.6%
2020	274,912	274,912	-	1,296,698	21.2%

CARNEGIE BOROUGH 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Smoothing method described in Section 210(a) of Act 205, as amended. Asset corridor between 80-120% of fair market value of plan assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.25%

CARNEGIE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Stacie L. Riley
Mayor

Mr. Phil Boyd
Council President

Mr. Stephen Beuter
Borough Manager

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.