

# COMPLIANCE AUDIT

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## Municipality of Mount Lebanon Employee's Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2019 to December 31, 2023

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May 2024



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

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Municipality of Mount Lebanon  
Allegheny County  
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We have conducted a compliance audit of the Municipality of Mount Lebanon Employee's Pension Plan for the period January 1, 2019 to December 31, 2023. 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 5 of the 19 plan members<sup>1</sup> who retired and 6 plan members who elected to vest 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 monthly 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, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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.

The Municipality of Mount Lebanon contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ending December 31, 2019, 2020, 2021, and 2022 which are available at the municipality's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

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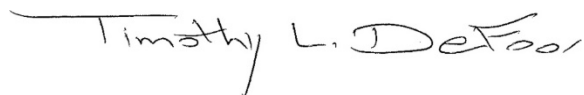
<sup>1</sup> We selected plan members randomly from the population of plan members who retired during the current audit period, and through the completion of our fieldwork procedures, in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.

Municipal officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Municipality of Mount Lebanon Employee's 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 objective.

The results of our procedures indicated that, in all significant respects, the Municipality of Mount Lebanon Employee's 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 the Municipality of Mount Lebanon and, where appropriate, their responses have been included in the report. We would like to thank municipal officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a horizontal line above the first name.

Timothy L. DeFoor  
Auditor General  
May 10, 2024

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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 two 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 Municipality of Mount Lebanon Employee's 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.

The Municipality of Mount Lebanon Employee's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. R-6-20, effective January 1, 2020. Prior to January 1, 2020, the plan was locally controlled by the provisions of Resolution No. R-3-09, as amended. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its non-uniformed employees. The plan was established March 24, 1958. Active members were required to contribute 5 percent of compensation to the plan in the years 2019, 2020, and 2021, and 4.5 percent of compensation in the years 2022 and 2023. As of December 31, 2023, the plan had 77 active members, 18 terminated members eligible for vested benefits in the future, and 81 retirees receiving pension benefits from the plan.

MUNICIPALITY OF MOUNT LEBANON EMPLOYEE'S 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, 2019, 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)
01-01-19	\$ 26,756,395	\$ 27,560,133	\$ 803,738	97.1%
01-01-21	31,360,689	30,699,492	(661,197)	102.2%
01-01-23	34,897,847	33,137,839	(1,760,008)	105.3%

Note: The market values of the plan's assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period, which will be limited to a maximum of 110 percent and a minimum of 90 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.

MUNICIPALITY OF MOUNT LEBANON EMPLOYEE'S 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.



MUNICIPALITY OF MOUNT LEBANON EMPLOYEE'S 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	\$ 432,172	\$ 432,172	\$ -	\$4,008,309	10.78%
2015	433,269	433,269	-	4,474,435	9.68%
2016	413,887	413,887	-	4,495,374	9.21%
2017	403,602	403,602	-	4,452,316	9.06%
2018	424,715	424,715	-	4,740,168	8.96%
2019	456,673	456,673	-	4,995,603	9.14%
2020	511,555	511,555	-	5,032,161	10.17%
2021	520,891	520,891	-	5,319,127	9.79%
2022	397,860	397,860	-	5,366,094	7.41%
2023	389,508	389,508	-	*	

\* Due to the timing of this audit, covered-employee payroll for 2023 was not provided in this schedule.

MUNICIPALITY OF MOUNT LEBANON EMPLOYEE'S 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	Not applicable
Remaining amortization period	None
Asset valuation method	4-year smoothing – the actuarial value of assets will be limited to a maximum of 110% and a minimum of 90% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases *	4.50%

\* Includes inflation at 2.50%

MUNICIPALITY OF MOUNT LEBANON EMPLOYEE'S PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**Ms. Anne Swager Wilson**  
President, Board of Commissioners

**Mr. Keith A. McGill**  
Municipal Manager

**Mr. J. Andrew McCreery**  
Finance Director

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