

COMPLIANCE AUDIT

Munhall Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

July 2016



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 Borough Council
Munhall Borough
Allegheny County
Munhall, PA 15120

We have conducted a compliance audit of the Munhall Borough Non-Uniformed Pension Plan for the period January 1, 2014 to December 31, 2015. 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 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 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 whether retirement benefits calculated for the 2 plan members 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit period represent payments to only those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- × We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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.

Munhall Borough contracted with an independent certified public accounting firm for an audit of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania for the year ended December 31, 2014, which is 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 Munhall 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.

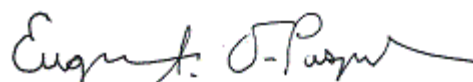
The results of our procedures indicated that, in all significant respects, the Munhall Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Untimely Deposit Of State Aid
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation -
Incorrect Data On Certification Form AG 385 Resulting In An
Underpayment Of State Aid
- Finding No. 3 – Partial Compliance With Prior Audit Recommendation –
Failure To Timely Pay The Minimum Municipal Obligation Of
The Plan
- Finding No. 4 – Failure To Deduct Member Contributions

Finding Nos. 1, 2, and 3 contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the borough's failure to correct these previously reported audit 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.

The contents of this report were discussed with officials of Munhall 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.



EUGENE A. DEPASQUALE
Auditor General

June 23, 2016

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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 Munhall Borough Non-Uniformed 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.

The Munhall Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan for non-uniformed employees hired prior to January 1, 2012. The plan is locally controlled by the provisions of Ordinance No. 1564. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established July 1, 1963. Active members are required to contribute 2 percent of compensation to the plan. As of December 31, 2015, the plan had 17 active members, 3 terminated members eligible for vested benefits in the future, and 13 retirees receiving pension benefits from the plan.

Munhall Borough established a money purchase pension plan for employees hired on or after January 1, 2012, locally controlled by the provisions of Ordinance No. 1564, Appendix A. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. Active members are required to contribute 2 percent of compensation to the plan. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2015, the plan had 3 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

BACKGROUND – (Continued)

As of December 31, 2015, selected defined benefit plan provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65
Early Retirement	Attainment of age 60 and completion of 20 years of service
Vesting	100% after 10 years of service

Retirement Benefit:

A monthly benefit equal to 1.9% of Average Monthly Compensation (averaged over the final 60 months of employment) multiplied by years of service.

Survivor Benefit:

Before 10 Years of Service	Refund of contributions with interest.
After 10 Years of Service but Before Retirement Eligibility	If the participant dies after completing 10 years of service, the surviving spouse will receive the survivor's portion of the Accrued Benefit after reduction to a joint and 50% survivor annuity, payable at the participant's normal retirement date.
After Retirement Eligibility	The normal form of benefit payment is a life annuity with 10 years guaranteed. At retirement, the participant may select an optional form of benefit that is an actuarial equivalent of the normal form.

Service and Non-Service Related Disability Benefit:

For total and permanent disablement that occurs after the completion of 15 years of service and that qualifies for Social Security disability, a monthly benefit equal to the Accrued Benefit at date of disablement.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendation

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

- Untimely Deposit Of State Aid

Partial Compliance With Prior Audit Recommendations

Munhall Borough has partially complied with the prior audit recommendations concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current audit period, the borough reimbursed \$3,884 to the Commonwealth for the overpayment of state aid received in 2013; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2015, as further discussed in the Findings and Recommendations section of this report.

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

During the current audit period, the borough paid the 2015 minimum municipal obligation (MMO) timely; however, plan officials failed to fully pay the 2014 MMO until March 23, 2016, as further discussed in the Findings and Recommendations section of this report.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid

Condition: As disclosed in the prior audit report, the municipality did not deposit its 2013 state aid allocation into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2013 state aid allocation in the amount of \$271,905 on September 23, 2013, but did not deposit the state aid into an eligible pension plan until April 21, 2014.

During the current audit period, the municipality did not deposit its 2014 and 2015 state aid allocations into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2014 and 2015 state aid allocations in the amounts of \$251,724 and \$231,331, respectively, on September 25, 2014 and September 30, 2015, respectively, but did not deposit the money into its police and non-uniformed pension plans until December 10, 2014 and November 23, 2015, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation. Also, the borough has experienced multiple changes in plan administration since our last audit.

Effect: Although the state aid was deposited into the plans, the interest earned beyond the 30 day grace period was not deposited into the plans. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the police and non-uniformed pension plans the interest earned during the period beyond the 30 day grace period allowed by Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also again recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: As disclosed in the prior audit report, the borough certified 1 ineligible non-uniformed employee (1 unit) on the Certification Form AG 385 filed in 2013. During the current audit period, the borough reimbursed \$3,884 to the Commonwealth for the overpayment of state aid received; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2015.

The borough failed to certify 3 eligible non-uniformed employees (3 units) on the Certification Form AG 385 filed in 2015. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified and to ensure full compliance with the prior audit recommendation. Also, the borough has experienced multiple changes in plan administration since our last audit.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocation was based on unit value, the borough received an underpayment of state aid of \$11,763 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2015	3	\$ 3,921	\$ 11,763

Although the borough will be reimbursed for the underpayment of state aid due to the borough’s certification errors, the full amount of the 2015 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We again recommend that, in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, plan officials did not timely pay the 2013 minimum municipal obligation (MMO) that was due to the non-uniformed pension plan by December 31, 2013, as required by Act 205. On April 21, 2014, the borough deposited \$274,623 into the non-uniformed pension plan representing the 2013 MMO and applicable interest.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

During the year current audit period, the borough paid the 2015 MMO by the December 31, 2015 deadline; however, plan officials failed to fully pay the 2014 MMO by December 31, 2014, as required by Act 205. The municipality had an unpaid MMO of \$105,895 for the year 2014. On March 23, 2016, the borough deposited \$125,296 into the non-uniformed pension plan, comprised of the following:

2014 Employer Contributions	\$ 105,895
Interest	<u>19,401</u>
Total Payment	<u>\$ 125,296</u>

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation. Also, the borough has experienced multiple changes in plan administration during the current audit period.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Due to the municipality's failure to pay the 2014 MMO by the December 31, 2014, deadline, the municipality was required by Act 205 to pay \$19,401 in interest charges that would not have been required had the MMO been paid timely in accordance with Act 205 requirements.

Recommendation: We again recommend that plan officials establish and implement internal control procedures to ensure that future MMOs are paid timely in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 4 – Failure To Deduct Member Contributions

Condition: Effective January 1, 2012, the Borough of Munhall established a money purchase pension plan for any person who is employed by the Employer on or after January 1, 2012 in a job classification that is represented by a Union for the purpose of collective bargaining with the Employer, who is employed a minimum of one thousand (1,000) hours per year and is not a police officer.

In 2014, 2015, and through at least April 7, 2016, the borough failed to deduct member contributions from three members who were hired in June 2014.

Criteria: The plan's governing document, Ordinance No. 1564, at section A-3.01, sets the member contribution rate at 2 percent of compensation per full-time employee.

Cause: Due to a turnover of borough managers, plan officials failed to institute member contributions for the three new employees.

Effect: The failure to properly fund the plan could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Recommendation: We recommend that the borough deduct and deposit the member contributions due to the members' accounts for the years 2014 and 2015, as well as any member contributions not yet deducted and deposited for 2016.

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

We also recommend that, in the future, borough officials properly deduct member contributions and deposit them into the accounts of all eligible plan members.

Management's Response: Municipal officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

MUNHALL 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, 2011, 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)
01-01-11	\$ 3,177,002	\$ 4,089,886	\$ 912,884	77.7%
01-01-13	3,534,176	4,215,791	681,615	83.8%
01-01-15	4,265,474	4,487,630	222,156	95.0%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 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.

MUNHALL 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.

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2010	\$ 181,338	120.4%
2011	179,299	157.1%
2012	171,367	100.0%
2013	250,120	100.0%
2014	214,749	100.0%
2015	200,357	100.0%

MUNHALL BOROUGH NON-UNIFORMED 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	3 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.0%

* Includes inflation at 3.0%

MUNHALL BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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