

COMPLIANCE AUDIT

Baldwin Borough Non-Uniformed Defined Contribution Pension Plan

Allegheny County, Pennsylvania

For the Period

January 1, 2017 to December 31, 2020

December 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Baldwin Borough
Allegheny County
Pittsburgh, PA 15227

We have conducted a compliance audit of the Baldwin Borough Non-Uniformed Defined Contribution 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 also tested individual employee contributions made during the audit period for all 10 active employees employed during 2017, all 10 active employees employed during 2018, all 13 active employees employed during 2019, and all 12 active employees employed during 2020, amounting to \$9,843, \$10,345, \$15,327, and \$21,954, for the years 2017, 2018, 2019, and 2020, respectively.
- We determined whether retirement benefits calculated for plan members who separated employment and received a lump-sum distribution 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 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, 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.

Baldwin Borough contracted with an independent certified public accounting firm for annual audits of its primary government 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.

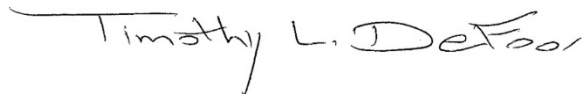
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Baldwin Borough Non-Uniformed Defined Contribution Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 Baldwin Borough Non-Uniformed Defined Contribution 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 finding further discussed later in this report:

Finding – Failure To Fully Fund Member Accounts

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

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
November 29, 2021

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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 Baldwin Borough Non-Uniformed Defined Contribution 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 Baldwin Borough Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 840, as amended, for non-uniformed employees hired on or after January 1, 2011. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. Active members were required to contribute 3 percent of compensation to the plan for the years 2019 and 2020. Prior to that, active members were required to contribute 2 percent of compensation to the plan. The municipality were required to contribute 7 percent of compensation to the plan for the years 2019 and 2020. Prior to that, the municipality was required to contribute 6 percent of compensation. As of December 31, 2020, the plan had 11 active members.

Non-uniformed employees hired prior to January 1, 2011 are members of a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 817, as amended.

BALDWIN BOROUGH NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Fully Fund Member Accounts

Condition: The borough did not fully fund the accounts of 9 plan members in 2019 in the total amount of \$929, as illustrated below:

| <u>Employee Hire Date</u> | <u>Required Contribution</u> | <u>Actual Contributions</u> | <u>Contributions Due</u> |
|-------------------------------|----------------------------------|---------------------------------|------------------------------|
| 02/22/2010 | \$ 2,781 | \$ 2,767 | \$ 14 |
| 09/03/2013 | 4,483 | 4,392 | 91 |
| 09/03/2013 | 4,465 | 4,345 | 120 |
| 04/03/2017 | 6,705 | 6,453 | 252 |
| 05/29/2018 | 4,041 | 3,912 | 129 |
| 01/02/2019 | 3,449 | 3,385 | 64 |
| 12/13/2018 | 1,903 | 1,843 | 60 |
| 11/04/2019 | 570 | 491 | 79 |
| 11/05/2019 | 520 | 400 | 120 |
| | | Total | <u>\$ 929</u> |

Criteria: The plan’s governing document, Ordinance No. 840, Section 16.03(c), as amended by Ordinance No. 895 in April 2019, set the municipal contribution rate at 7 percent of compensation, effective January 1, 2019.

Cause: Borough officials failed to contribute on W-2 earnings and did not contribute on the new rate retroactive to January 1, 2019.

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, as amended.

Due to borough’s failure to properly fund the member accounts, the borough must now pay interest on the delinquent contributions.

Recommendation: We recommend that the borough deposit the contributions due to the member accounts for the year 2019, with interest, from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that, in the future, borough officials properly fund the accounts of all eligible plan members.

BALDWIN BOROUGH NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

BALDWIN BOROUGH NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

| Year Ended December 31 | State Aid | Employer Contributions |
|------------------------|-----------|------------------------|
| 2015 | None | \$ 24,187 |
| 2016 | None | 24,576 |
| 2017 | None | 29,527 |
| 2018 | None | 31,037 |
| 2019 | None | 36,886 |
| 2020 | None | 51,226 |

BALDWIN BOROUGH NON-UNIFORMED DEFINED CONTRIBUTION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable David Depretis
Mayor

Ms. Marianne Conley
Council President

Mr. Robert Firek
Borough Manager

Ms. Caitlin Hornyak
Finance Officer

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.