

COMPLIANCE AUDIT

Bridgeville Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

May 2023



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
Bridgeville Borough
Allegheny County
Bridgeville, PA 15017

We have conducted a compliance audit of the Bridgeville Borough Police Pension Plan for the period January 1, 2018 to December 31, 2021. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings 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.
- 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 plan members who retired 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, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, 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.

Bridgeville Borough contracted with an independent certified public accounting firm for annual audits 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 years ended December 31, 2018, 2019, and 2020, and contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2021, 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 Bridgeville 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 objective.

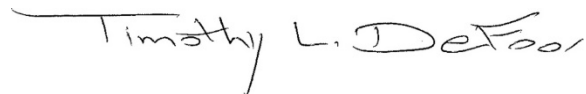
The results of our procedures indicated that, in all significant respects, the Bridgeville Borough Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings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

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Incorrect Pension Calculation

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 Bridgeville 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 5, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	2
Finding No. 2 – Incorrect Pension Calculation	4
Supplementary Information	6
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.

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 Bridgeville 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Bridgeville Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1014, effective January 1, 2020, adopted pursuant to Act 600. Prior to January 1, 2020, the pension plan was controlled by the provisions of Ordinance No. 888, 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, 1958. Active members are required to contribute 8 percent of compensation to the plan; however, member contributions were reduced to 7 percent of compensation for the period January 1, 2018 to November 11, 2018, 2.5 percent for the period November 12, 2018 to December 31, 2018, and 5 percent for the months of November and December 2019. As of December 31, 2021, the plan had 8 active members, no terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

BRIDGEVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough understated payroll by \$58,606 on the Certification Form AG 385 filed in 2018 and understated payroll by \$17,601 on the Certification Form AG 385 failed in 2019. The data contained on these certification forms is based on prior calendar year information. The understatement of payroll was attributable to a clerical error involving the eligibility of Heart and Lung compensation to be certified.

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.

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should include any Heart and Lung benefits.

Cause: The township lacked adequate internal control procedures, such as having another individual review the data certified to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans.

The borough’s original 2018 state aid allocation in the amount of \$111,368 was based on pension costs. However, based on the correct information, the borough was entitled to an allocation in the amount of \$112,414 (24 units at \$4,683.9127 each). Therefore, the township received an underpayment of state aid in the amount of \$1,046 in 2018.

The borough’s original 2019 state aid allocation was based on pension costs. Therefore, the borough received an underpayment of state aid in the amount of \$2,154 in 2019 as identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
12.24%	\$ 17,601	\$ 2,154

Therefore, as a result of the certification errors, the borough received an underpayment of state aid in the total amount of \$3,200.

BRIDGEVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Although the additional state aid will be allocated to the borough, the full amount of the 2018 and 2019 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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 provided the following response:

We agree with Finding No. 1. However, our calculation of understated payroll differs as shown below. Support for the participant's 2017 and 2018 payroll calculations is attached [redacted]. During those periods that the participant was eligible for Workers Compensation he was paid from our general fund in the weekly amount of 100% of patrolman base pay as shown below [redacted]. Actual disbursements were split between support payments to Pennsylvania's State Collection and Disbursement Unit (SCDU) and payments of the remainder directly to the participant.

Auditor's Conclusion: The response provided by municipal officials was in response to understated payroll amounts initially identified during the audit based on payroll documentation provided to the auditor. Based on the management response and supporting payroll documentation provided by municipal officials subsequent to the audit exit conference, the Condition and Effect sections above were revised to reflect the correct amounts of 2017 and 2018 payroll understated on the Certification Forms AG 385 submitted in 2018 and 2019, respectively. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

BRIDGEVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Pension Calculation

Condition: A member of the pension plan who began receiving pension benefits in 2020 had his pension benefit incorrectly determined because municipal official failed to accurately calculate the individual’s final monthly average salary used in the benefit calculation in accordance with the plan’s governing document.

Criteria: Ordinance No. 1014, at Section 2.02, states, in part:

Retirement Benefit. A Former Participant who satisfies the conditions for entitlement ... shall be entitled to a monthly amount payable for his life, which amount (referred to hereinafter as the “Retirement Benefit” or “Normal Retirement Benefit”) is derived from the following formula:

$$(a \times b) + c$$

where, with respect to said Former Participant,

a = 50% of Final Average Monthly Compensation.

b = the Accrued Benefit Percentage.

c = the Extra Service Benefit.

Also, Ordinance No. 1014, at Section 1.12, states:

“Final Average Monthly Compensation” shall mean the Compensation of a Participant averaged over the Participant’s final 36 months of Service.

Cause: Municipal officials did not use the correct full final 36 months of compensation in the member’s pension benefit due to the Heart and Lung compensation received by the member (also cited in Finding No. 1 in this report). Also, municipal officials lacked adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan’s governing document.

Effect: The plan is paying a lesser monthly benefit to the retiree than what is authorized by the plan’s governing document.

Recommendation: We recommend that municipal officials recalculate and adjust the retiree’s pension benefit in accordance with the provisions contained in the plan’s governing document and compensate the retiree for the total underpayments retroactive to his date of retirement.

BRIDGEVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also recommend that plan officials establish adequate internal control procedures to ensure future pension benefits are determined in accordance with the plan's governing document.

Management's Response: Municipal officials provided the following response:

We agree with Finding No. 2. We are presently re-calculating the participant's pension based on revised 2017 and 2018 pay information and will reimburse the retiree for underpayments retroactive to his 4/1/2020 retirement date.

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

BRIDGEVILLE 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, 2017, 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)
01-01-17	\$ 3,788,983	\$ 3,650,720	\$ (138,263)	103.8%
01-01-19	4,369,252	4,386,990	17,738	99.6%
01-01-21	5,184,683	4,641,011	(543,672)	111.7%

Note: The market values of the plan’s assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses, subject to a corridor between 80 to 120 percent of the market value of assets 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.

BRIDGEVILLE 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.

BRIDGEVILLE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2016	\$ 63,379	106.2%
2017	83,072	100.0%
2018	62,574	119.8%
2019	79,744	100.0%
2020	116,157	100.0%
2021	113,159	100.0%

BRIDGEVILLE 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases *	4.0%

* Includes inflation at 2.5%

BRIDGEVILLE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Betty Copeland
Mayor

Mr. William Henderson
Council President

Mr. Joseph Kauer
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.