

COMPLIANCE AUDIT

City of Beaver Falls Firemen's Pension Plan Beaver County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

May 2024



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 City Council
City of Beaver Falls
Beaver County
Beaver Falls, PA 15010

We have conducted a compliance audit of the City of Beaver Falls Firemen's Pension Plan for the period January 1, 2020 to December 31, 2022. 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.
- 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, 2021 actuarial valuation report was prepared and submitted by March 31, 2022, in accordance with Act 205 and whether selected information provided on this report 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether the pension plan is in compliance with Act 205 for distressed municipalities through inquiry of plan officials and evaluation of the recovery remedies implemented during the audit period and through the completion of our fieldwork procedures.

City of Beaver Falls contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

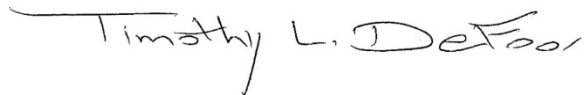
City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Beaver Falls Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 City of Beaver Falls Firemen's 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 Maintain Required Documentation And Evidence Of Required Annual Funding Of The City's Pension Plans In Accordance With Special Taxing Provisions Of Act 205

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 City of Beaver Falls and, where appropriate, their responses have been included in the report. We would like to thank city 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 from the start of the name.

Timothy L. DeFoor
Auditor General
April 26, 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 City of Beaver Falls Firemen'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 including, but not limited to, the following:

Act 67 - The Third Class City Code, Act of November 24, 2015 (P.L. 242, No. 67), as amended, 11 Pa. C.S. § 10101 et seq.

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.

The City of Beaver Falls Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 937, as amended, adopted pursuant to Act 67. The plan is also affected by the provisions of collective bargaining agreements between the city and its firefighters. The plan was established February 23, 1948. Active members are required to contribute four (4.0) percent of wages, plus \$1 per month for the monthly service increment to the plan. As of December 31, 2022, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and 17 retirees receiving pension benefits from the plan.

CITY OF BEAVER FALLS FIREMEN’S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Maintain Required Documentation And Evidence Of Required Annual Funding Of The City’s Pension Plans In Accordance With Special Taxing Provisions Of Act 205

Condition: The City of Beaver Falls’ pension plans were determined to be Level II Distressed by the former Pennsylvania Employees Retirement Commission (PERC). Utilizing a special tax provision provided in Act 205, the city enacted ordinances that increased its Earned Income Tax above the maximum rate for both residents and non-residents of the city for the sole purpose of defraying the additional costs required to be paid pursuant to Act 205 directly related to the city’s pension plans. The city elected to exercise its special municipal taxing authority through the adoption of Ordinance No. 1550, by levying additional earned income and net profits tax of .0016% (*effective January 1, 1988*). Subsequent ordinances have since increased the rate to .0050%. The city, however, failed to provide supporting documentation evidencing the determination of its level of contributions to its pension plans prior to the implementation of the special tax and its continued monitoring over current contribution levels to ensure that the city adhered to the annual funding requirements for 2020, 2021 and 2022, in accordance with the distress provisions of Act 205.

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, relative to the additional remedies available to distressed municipalities to assist with the funding of their pension plans, Section 607(f) of Act 205 further states:

(f) Special municipal taxing authority.

- (1) If the tax rates set by the municipality on earned income or on real property are at the maximum provided by applicable law, the municipality may increase its tax on either earned income or real property above those maximum rates. The proceeds of this special municipal tax increase shall be used solely to defray the additional costs required to be paid pursuant to this act, which are directly related to the pension plans of the municipality. The municipality utilizing this special municipal taxing authority shall not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. (Emphasis added.)

CITY OF BEAVER FALLS FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

- (2) The average level of municipal contributions to the pension plans from all revenue sources for the three years immediately prior to the implementation of the special municipal taxing authority shall be expressed as a percentage of the average covered payroll for that same three-year period: Provided, however, that any supplemental contributions made to the plans pursuant to any pension recovery legislation enacted by the municipalities shall be excluded for purposes of determining the level of municipal contribution to the pension plans prior to the implementation of the special municipal taxing authority. In each year subsequent to the implementation of the special municipal taxing authority, the municipal contributions to the pension plan from all revenue sources existing prior to the implementation of the special existing municipal taxing authority, reduced by any supplemental pension recovery contributions, shall equal or exceed this average percentage of the current covered payroll. A municipality utilizing the provisions of section 404 may levy or continue to levy the special municipal tax increase under this subsection provided that the municipality does not reduce the level of municipal contributions to the pension plans prior to the implementation of the special municipal taxing authority. In executing the procedure prescribed in this subsection to determine the level of municipal contributions, the debt service payments for bonds or notes issued under section 404 shall be considered municipal contributions. (Emphasis added.)

Cause: There has been turnover in officials responsible for administering the city's pension plan resulting in lost institutional knowledge since enactment of the city's special tax. Current officials were unaware that implementation and determination of its level of contributions prior to the implementation of the special tax and continued monitoring of subsequent annual contributions to its pension plans was required to properly execute the special tax provisions set forth in Act 205. Moreover, the city lacked adequate internal control procedures to assist them in complying with the provisions of the act.

Effect: The failure to establish adequate internal control procedures to apply the distress provisions of Section 607(f) of Act 205 and fund the city's pension plans accordingly may have resulted in less annual funding towards the city's distress pension plans than afforded under the provisions of Act 205 during 2020, 2021 and 2022 and could result in the plans not having the necessary resources to meet the current and future benefit obligations to its members. However, we were unable to determine the impact on the city's pension plans for 2020, 2021 and 2022 because, as noted in the Cause section above, the city was unable to provide the original determination of its level of municipal contributions to its plans from revenue sources existing prior to implementation of the special tax and/or evidence that the city's annual contributions made to its plans were in accordance with special tax provisions of Act 205, accordingly. The failure to maintain the levels of contribution prior to enacting the additional special tax reduces the net overall contributions to the plan, potentially negating benefits of the additional tax.

CITY OF BEAVER FALLS FIREMEN'S PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the city, with assistance from its actuary, determine or locate the prior determination of the city's required level of annual contributions under Section 607(f) of Act 205. Copies of these calculations must be maintained by the city for examination during our next audit of the plans.

In addition, we recommend that city officials establish and implement adequate internal control procedures to ensure that the city does not reduce its level of contributions to its pension plans from funding sources prior to the implementation of the special municipal tax in accordance with Act 205 for periods subsequent to this report. Such procedures should include maintaining appropriate supporting documentation identifying the sources of its annual contributions to its pension plans as well as an annual reconciliation evidencing that funding requirements are appropriately met in accordance with Section 607(f) of Act 205.

Management's Response: Municipal officials agreed without exception.

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

CITY OF BEAVER FALLS FIREMEN'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, 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	\$ 3,596,592	\$ 4,787,909	\$ 1,191,317	75.1%
01-01-19	4,307,219	5,216,269	909,050	82.6%
01-01-21	5,125,944	5,451,212	325,268	94.0%

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 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.

CITY OF BEAVER FALLS FIREMEN'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.

CITY OF BEAVER FALLS FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2017	\$ 210,228	140.9%
2018	201,044	342.6%
2019	199,136	141.3%
2020	189,550	248.4%
2021	176,060	141.4%
2022	200,070	147.6%

CITY OF BEAVER FALLS FIREMEN'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	Level dollar, closed
Remaining amortization period	13
Asset valuation method	4-year smoothing - The difference between total investment return and expected return (using the valuation interest rate) is spread evenly over 4 years. Final value is limited to no less than 80% and no greater than 120% of Market Value.
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases *	4.5%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.50%

CITY OF BEAVER FALLS FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Dr. Kenya Johns
Mayor

Mr. Charles R. Jones, Jr.
City Manager

Ms. Paula Durish
City Clerk

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.