

# COMPLIANCE AUDIT

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## City of Beaver Falls Firemen's Pension Plan Beaver County, Pennsylvania For the Period January 1, 2016 to December 31, 2017

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August 2018



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

We have conducted a compliance audit of the City of Beaver Falls Firefighters' Pension Plan for the period January 1, 2016 to December 31, 2017. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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 the plan member 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 monthly pension benefit due the retired individual and comparing this amount to supporting documentation evidencing amounts determined and paid to the recipient.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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.
- 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.

For the year 2016, city officials contracted with an independent certified public accounting firm for an audit of the city's basic financial statement which is available at the city's offices. The financial statement were not audited by us and, accordingly, we express no opinion or other form of assurance on it.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Beaver Falls Firefighters' 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 city's internal controls as they relate to the city's compliance with those requirements and that we considered to be significant within the context of our audit objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the City of Beaver Falls Firefighters' 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 City of Beaver Falls and, where appropriate, their responses have been included in the report.

August 8, 2018

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

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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 City of Beaver Falls Firefighters' Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission 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 Ps. 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 Firefighters' 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 4 percent of members' wage, plus \$1 per month for the monthly service increment to the plan. As of December 31, 2017, the plan had 7 active members, no terminated members eligible for vested benefits in the future and 18 retirees receiving pension benefits from the plan.

**BACKGROUND – (Continued)**

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

Eligibility Requirements:

- Normal Retirement    Age 50 and 25 years of service.
- Early Retirement     None
- Vesting                A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of the greater of monthly pay or average pay averaged over the highest 60 months prior to retirement, plus a service increment of 1/40 of the monthly pension for each completed year of service in excess of the minimum required, to a maximum of \$100.

Survivor Benefit:

- Before Retirement Eligibility    Refund of member contributions.
- After Retirement Eligibility     A monthly benefit equal to the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

For total and permanent disablement, the participant will receive a monthly benefit equal to 1/3 of monthly pay, payable for life.

CITY OF BEAVER FALLS FIREMENS' 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, 2013, 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)
01-01-13	\$ 2,530,890	\$ 4,171,848	\$ 1,640,958	60.7%
01-01-15	3,051,685	4,256,872	1,205,187	71.5%
01-01-17	3,596,592	4,787,909	1,191,317	75.1%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 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 FIREMENS' 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 FIREMENS' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 243,355	126.8%
2013	223,298	126.8%
2014	291,865	123.8%
2015	237,907	130.9%
2016	224,959	221.3%
2017	210,228	140.9%

CITY OF BEAVER FALLS FIREMENS' 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%

\* Includes inflation at 2.75%

CITY OF BEAVER FALLS FIREMENS' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**The Honorable George S. Quay, III**  
Mayor

**Mr. Douglas J. Carson**  
Councilman

**Mr. John Kirkland**  
Councilman

**Mr. Kevin Kunselman**  
Councilman

**Mr. Leonard L. Chiappetta**  
Councilman

**Mr. Charles R. Jones, Jr**  
Manager

**Ms. Paula Durish**  
Chief Administrative Officer

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