

COMPLIANCE AUDIT

Elizabeth Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

July 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Elizabeth Borough
Allegheny County
Elizabeth, PA 15037

We have conducted a compliance audit of the Elizabeth Borough Police Pension Plan for the period January 1, 2016 to December 31, 2019. 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- 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.

Elizabeth Borough contracted with an independent certified public accounting firm for annual audits of its financial statements for the years 2016, 2017 and 2018, prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 Elizabeth 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 Elizabeth 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 finding further discussed later in this report:

Finding – Failure To Maintain Vested Pension Benefit Documentation

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 Elizabeth 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.

July 27, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

EUGENE A. DEPASQUALE
Auditor General

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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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 Elizabeth 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 37 - The Borough Code, Act of April 18, 2014 (P.L. 432, No. 37), Chapter 11, Subchapter F Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 8 Pa. C.S. § 1131 et seq.

The Elizabeth Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 200-92, as amended, and a separately executed joinder agreement with PSABMRT, effective December 17, 2002, adopted pursuant to Act 37. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established March 8, 1983. Active members are not required to contribute to the plan. As of December 31, 2019, the plan had 1 active member, 2 terminated members eligible for vested benefits in the future, and 1 retiree receiving pension benefits.

ELIZABETH BOROUGH PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Maintain Vested Pension Benefit Documentation

Condition: The borough failed to maintain appropriate documentation for a plan member who effectively terminated employment with the borough on June 4, 2019 and appeared eligible for a vested pension benefit according to the plan’s governing document.

Criteria: Section 1.01 of Part I of the plan’s separately executed plan joinder agreement with PSABMRT, describes an accrued benefit as follows:

“Accrued Benefit” shall mean, as of any given date, the Participant’s projected monthly normal retirement benefit, determined in accordance with the formula provided under section 4.01 of Chapter III of the Master Plan and Trust, multiplied by a fraction, the numerator of which is the Participant’s Years of Credited Service as of the date of determination and the denominator of which is the total Years of Credited Service which would be credited to the Participant as of the Participant’s Normal Retirement Date if the Participant’s regular employment with the employer were to continue until such date....

Additionally, Part VIII of the plan agreement establishes a vesting schedule based on years of credited service, as follows:

Completed Years of Service	Vested Percentage
4	40%
5	45%
6	50%
7	60%
8	70%
9	80%
10	90%
11	100%

Moreover, maintaining adequate supporting documentation to substantiate the propriety of future vested pension benefits payable from the pension benefit is a prerequisite for the sound administration and safeguarding of assets of the pension plan.

Cause: Due to a recent turnover in plan officials responsible for the administration of the plan, current plan officials were unaware that a vested benefit application was required to be filed at the time the plan member terminated employment with the borough to ensure accuracy and propriety of benefits payable from the pension plan.

ELIZABETH BOROUGH PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued):

Effect: The failure to maintain appropriate, substantive documentation to evidence eligibility, approval and determination of a vested pension benefit could result in a plan member being denied benefits entitled or inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. Additionally, we were unable to determine whether the aforementioned plan member, who terminated employment with the borough during 2019 and appeared eligible for a vested pension benefit in the future according to the plan document, actually made an election to vest such benefit based on the lack of documentation available.

Recommendation: We recommend that plan officials, with assistance of the plan consultant, determine whether the aforementioned individual is entitled to a vested pension benefit and file the necessary documentation, accordingly, to determine the amount of pension benefit due the plan member. In addition, we recommend that plan officials verify the accuracy of any vested pension benefit determined to be paid from the plan and maintain such documentation on file to support the calculated benefit.

We also recommend that municipal officials establish adequate internal control procedures to ensure that all subsequent employees, who terminate employment with the borough and meet the eligibility criteria for some form of pension benefit prescribed in the plan document, complete the necessary forms applicable for such benefits and that pension benefit calculations are properly determined and maintained by the borough, accordingly.

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

Auditor Conclusion: Compliance will be evaluated during our next engagement of the plan.

ELIZABETH BOROUGH 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, 2015, 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)
01-01-15	\$ 478,997	\$ 281,322	\$ (197,675)	170.3%
01-01-17	491,051	380,387	(110,664)	129.1%
01-01-19	503,772	379,219	(124,553)	132.8%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a four-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.

ELIZABETH BOROUGH 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.

ELIZABETH BOROUGH PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2014	None	N/A
2015	None	N/A
2016	None	N/A
2017	None	N/A
2018	\$ 24,377	100.0%
2019	26,789	141.3%

ELIZABETH BOROUGH 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, 2019
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.5%

ELIZABETH BOROUGH PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Barry Boucher
Mayor

Mr. Chad Rager
Council President

Ms. Lauren Zang
Secretary

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.