

# COMPLIANCE AUDIT

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## Millvale Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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February 2020



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 Borough Council  
Millvale Borough  
Allegheny County  
Millvale, PA 15209

We have conducted a compliance audit of the Millvale Borough Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018. 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 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 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 the monthly pension benefit due to the retired individual and comparing this amounts to supporting documentation evidencing the amount determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the plan member who elected to vest during the engagement 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 monthly pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- We determined whether the January 1, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 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.
- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Millvale 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, 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 Millvale Borough Non-Uniformed 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 borough's internal controls as they relate to the borough'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 Millvale Borough Non-Uniformed 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 Deposit The Full Amount Of State Aid In An Eligible Pension Plan

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 Millvale 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.

February 5, 2020



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 Millvale Borough Non-Uniformed 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.

The Millvale Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2074, as amended. The plan was established January 1, 1973. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 8 active members, 4 terminated members eligible for vested benefits in the future, and 7 retirees receiving pension benefits from the plan.

**BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Later of age 63 or the completion of 7 years of vesting service.
Early Retirement	Later of age 60 or the completion of 10 years of vesting service.
Vesting	Member is 20% vested after the completion of 3 years of service, plus 20% per year thereafter, up to 100%.

Retirement Benefit:

Benefit equals 2.0% of average compensation (average of 3 latest compensation years) multiplied by accrual service.

Survivor Benefit:

If fully or partially vested in his/her accrued benefit, the surviving spouse may take a monthly benefit equal to 50% of the participant's accrual benefit on date of death immediately upon death of participant.

Disability Benefit:

Service Related	The accrued benefit at date of disablement will be payable for the lifetime of the participant (minimum \$20).
Non-service Related	Same.

MILLVALE BOROUGH NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding - Failure To Deposit The Full Amount Of State Aid Into An Eligible Pension Plan**

Condition: The municipality did not deposit the full amount of its 2019 state aid allocation into an eligible pension plan. The municipality received its 2019 state aid allocation in the amount of \$107,530 on September 18, 2019, but, as of the date of this report, only state aid totaling \$101,726 was deposited into an eligible pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the pension plans.

Cause: The full amount of the 2019 state aid was not deposited into an eligible pension plan because internal control procedures were not in effect to ensure the deposit of the full amount of state aid.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the borough's remaining state aid allocation of \$5,804, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, into an eligible pension plan. 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 plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

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.



MILLVALE BOROUGH NON-UNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

The supplementary information contained on Pages 4 through 6 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
 LIABILITY AND RELATED RATIOS  
 FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 22,951	\$ 35,898	\$ 37,693	\$ 45,724	\$ 48,010
Interest	74,178	82,354	88,297	95,412	102,185
Difference between expected and actual experience	-	1,035	-	2,429	-
Changes of assumptions	-	57,331	-	3,807	-
Benefit payments, including refunds of member contributions	(27,934)	(38,128)	(48,612)	(48,288)	(63,774)
Net Change in Total Pension Liability	<u>69,195</u>	<u>138,490</u>	<u>77,378</u>	<u>99,084</u>	<u>86,421</u>
Total Pension Liability - Beginning	918,241	987,436	1,125,926	1,203,304	1,302,388
Total Pension Liability - Ending (a)	<u>\$ 987,436</u>	<u>\$ 1,125,926</u>	<u>\$ 1,203,304</u>	<u>\$ 1,302,388</u>	<u>\$ 1,388,809</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 10,141	\$ 24,311	\$ 27,496	\$ 14,164	\$ 30,985
Contributions - state aid	46,805	35,287	46,584	63,481	53,010
Net investment income	36,632	(20,845)	48,600	136,948	(78,791)
Benefit payments, including refunds of member contributions	(27,934)	(38,128)	(48,612)	(48,288)	(63,774)
Administrative expense	(5,375)	(5,875)	(5,875)	(5,875)	(6,175)
Net Change in Plan Fiduciary Net Position	<u>60,269</u>	<u>(5,250)</u>	<u>68,193</u>	<u>160,430</u>	<u>(64,745)</u>
Plan Fiduciary Net Position - Beginning	810,874	871,143	865,893	934,086	1,094,516
Plan Fiduciary Net Position - Ending (b)	<u>\$ 871,143</u>	<u>\$ 865,893</u>	<u>\$ 934,086</u>	<u>\$ 1,094,516</u>	<u>\$ 1,029,771</u>
Net Pension Liability - Ending (a-b)	<u>\$ 116,293</u>	<u>\$ 260,033</u>	<u>\$ 269,218</u>	<u>\$ 207,872</u>	<u>\$ 359,038</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.2%	76.9%	77.6%	84.0%	74.1%
Estimated Covered Employee Payroll	\$ 298,336	\$ 325,704	\$ 356,991	\$ 388,567	\$ 395,525
Net Pension Liability as a Percentage of Covered Employee Payroll	39.0%	79.8%	75.4 %	53.5%	90.8%

MILLVALE BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the borough as of December 31, 2015, 2016, 2017, and 2018, calculated using the discount rate of 7.75%, as well as what the borough's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net Pension Liability - 12/31/15	\$ 414,991	\$ 260,033	\$ 129,241
Net Pension Liability - 12/31/16	\$ 433,540	\$ 269,218	\$ 130,177
Net Pension Liability - 12/31/17	\$ 378,743	\$ 207,872	\$ 63,293
Net Pension Liability - 12/31/18	\$ 541,051	\$ 359,038	\$ 204,772

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2009	\$ 49,254	\$ 51,123	\$ (1,869)	\$ 324,710	15.7%
2010	63,091	63,091		321,801	19.6%
2011	60,470	60,666	(196)	296,571	20.5%
2012	51,532	51,532		295,150	17.5%
2013	43,110	43,110		214,013	20.1%
2014	56,946	56,946		298,336	19.1%
2015	59,595	59,598	(3)	325,704	18.3%
2016	74,080	74,080		356,991	20.8%
2017	77,645	77,645		388,567	20.0%
2018*	77,751	77,751		395,525	19.7%

\* The 2018 MMO has been satisfied due to the contribution of \$79,757 deposited in April 2019 and the contribution of \$6,471 deposited in May 2019. The total contribution of \$86,228 included the 2018 receivable contribution of \$77,751 plus \$8,477 interest on the late deposit.

MILLVALE BOROUGH NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(7.45%)
2017	15.00%
2016	5.78%
2015	(2.40%)
2014	4.62%

MILLVALE BOROUGH NON-UNIFORMED 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	\$ 862,036	\$ 1,045,802	\$ 183,766	82.4%
01-01-17	1,002,141	1,209,540	207,399	82.8%
01-01-19	1,148,410	1,327,680	179,270	86.4%

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 lost over a five-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.

MILLVALE BOROUGH NON-UNIFORMED 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.

MILLVALE BOROUGH NON-UNIFORMED 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	Level dollar
Remaining amortization period	18 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.0%

MILLVALE BOROUGH NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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