

# LIMITED PROCEDURES ENGAGEMENT

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## Mount Oliver Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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October 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 Borough Council  
Mount Oliver Borough  
Allegheny County  
Mount Oliver, PA 15210

We conducted a Limited Procedures Engagement (LPE) of the Mount Oliver Borough Police Pension Plan for the period January 1, 2015 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the findings contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period.
- 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.

- Whether annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether retirement benefits calculated for the plan member who elected to vest during the current engagement period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- Whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Mount Oliver Borough Police Pension Plan was not being 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 – Noncompliance With Prior Audit Recommendation - Pension Plan  
Not In Compliance With Act 600 Provisions Resulting In The  
Receipt Of Excess State Aid

This finding repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this 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 Mount Oliver Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

July 26, 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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MOUNT OLIVER BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Mount Oliver Borough has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current engagement period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

Noncompliance With Prior Audit Recommendation

Mount Oliver Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Pension Plan Not In Compliance With Act 600 Provisions

MOUNT OLIVER BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation - Pension Plan Not In Compliance With Act 600 Provisions Resulting In The Receipt Of Excess State Aid**

Condition: As disclosed in the three prior audit reports, the pension plan’s governing document grants a benefit that is not authorized by Act 600. On June 15, 2009, the borough adopted Ordinance No. 913, which provides that “aggregate years of service shall be counted from the date of hiring of an officer.” The ordinance allows police officers to receive full-time service credit for part-time service. However, credit for part-time years of service for pension purposes is not authorized by Act 600.

Criteria: Act 600 makes repeated references to full-time service as a basis for receiving pension benefits. Section 1(a) of Act 600 states that boroughs, towns, and townships with police forces of three or more full-time members must establish a police pension plan. Section 3 of Act 600 requires that the ordinance establishing the plan prescribe a minimum period of service of twenty-five years. Given Section 1(a), the service referred to could only be full-time service. This conclusion is supported by the twelve-year vesting provision contained in Section 5(h) of Act 600, under which vested benefits are not payable until the date which would have been the member’s superannuation retirement date if he/she had continued to be employed as a full-time police officer.

Moreover, Section 4 of Act 600 identifies situations in which previous service may be credited for retirement purposes. Other than service in the military, these situations involve full-time service as a police officer.

Additionally, regarding part-time service credit, it is the Department’s opinion that Act 600 does not expressly empower municipalities to grant service credit for part-time employment. Nor does such power exist by necessary implication. As noted throughout Act 600, the service for which credit is approved (other than military service) is full-time service. Nowhere in Act 600 does the term “part-time” even appear. Giving credit for part-time service is outside the bounds established by Section 4 and finds no implied support in that or any other section of Act 600.

Cause: Municipal officials are aware that providing credit for part-time service is not authorized by Act 600; however, there are no plans to repeal the ordinance at this time.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: For the police officer who terminated employment in November 2014 and vested and was originally hired as a part-time employee, the borough provided service credit for pension purposes for all service, including part-time service, based on Ordinance No. 913, in the determination of the officer's deferred vested benefit. For a current full-time police officer who also was originally hired as a part-time employee, the borough anticipates giving service credit for pension purposes upon his retirement for all service, including part-time service. If full-time service credit is granted for the part-time service to the current full-time police officer, it will also result in benefits provided in excess of those authorized by Act 600.

Excess pension benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Because the borough's state aid allocation is determined, in part, by the information contained in the plan's actuarial valuation report, the correct inclusion of excess benefits in the actuarial valuation report resulted in the allocation of excess state aid to the borough in 2014 through 2017 attributable to excess benefits provided.

The plan's actuary prepared Supplemental Actuarial Information Forms AG-MP-1 as of January 1, 2013 and January 1, 2015, and it was determined that for the years 2014 through 2017, the impact of the excess benefits on the borough's state aid allocations totaled \$20,015.

In addition, the borough used part of the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMOs may not be fully paid.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$20,015, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

If the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.



MOUNT OLIVER BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

We also again recommend that borough officials amend the plan’s governing document to remove the allowance for the credit of part-time service at its earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600, and/or it’s contractually obligated to pay benefits in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation report for the plan and funded in accordance with Act 205 standards. Furthermore, such benefits will be deemed ineligible for funding with pension state aid. Municipal officials should consult with the plan’s actuary to prepare Supplemental Actuarial Information Form AG-MP-1 as of January 1, 2017 and submit the completed form to the Department. If it is determined the excess benefits had an impact on the borough’s state aid allocations subsequent to the current engagement period, the plan’s actuary should contact the Department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

Management Response: Municipal officials stated it is their intent to continue providing this benefit.

Auditor’s Conclusion: Compliance will be monitored subsequent to the release of the report and through our next engagement.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the borough in the amount of \$20,015, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

MOUNT OLIVER 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, 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	\$ 1,081,954	\$ 979,507	\$ (102,447)	110.5%
01-01-15	1,279,299	888,273	(391,026)	144.0%
01-01-17	1,369,744	1,203,669	(166,075)	113.8%

Note: The market value of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing methods described in Section 210 of Act 205, as amended. These 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.

MOUNT OLIVER 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.

MOUNT OLIVER 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
2012	\$ 72,923	100.0%
2013	74,227	109.7%
2014	43,070	118.0%
2015	58,873	105.7%
2016	63,860	116.6%
2017	88,587	106.1%

MOUNT OLIVER 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, 2017
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value - smoothing method described in section 210 of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

MOUNT OLIVER BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Frank Bernardini**  
Mayor

**Ms. Amber McGough**  
Council President

**Mr. Richard Hopkinson**  
Borough Manager

**Ms. Diane C. Holzer**  
Treasurer

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