

COMPLIANCE AUDIT

Municipality of Mount Lebanon Firemen's Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

January 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**

Board of Commissioners
Municipality of Mount Lebanon
Allegheny County
Pittsburgh, PA 15228

We have conducted a compliance audit of the Municipality of Mount Lebanon Firemen's Pension Plan for the period January 1, 2016 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 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 all six of the plan members 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for the plan member who elected to vest during the current audit 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.
- 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.

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

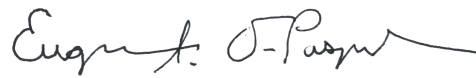
Municipal officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Municipality of Mount Lebanon Firemen's Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the municipality's internal controls as they relate to the municipality'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 Municipality of Mount Lebanon Firemen's 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 the Municipality of Mount Lebanon and, where appropriate, their responses have been included in the report. We would like to thank municipal officials for the cooperation extended to us during the conduct of the audit.

January 7, 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 Municipality of Mount Lebanon Firemen's 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 Municipality of Mount Lebanon Firemen's Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. R-5-09, as amended. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its firefighters. The plan was established July 1, 1971. Active members are required to contribute 4.25 percent of compensation to the plan in 2016 and 5 percent of compensation to the plan in 2017 and 2018. As of December 31, 2018, the plan had 17 active members, 1 terminated member eligible for vested benefits in the future, and 16 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	Age 53 and 25 years of service.
Early Retirement	Completion of 7 years of service.
Vesting	A member is 100% vested after 7 years of service.

Retirement Benefit:

A monthly benefit equal to 70% of final average monthly compensation (averaged over the 36 consecutive months out of the final 120 months that produces the highest average), plus a service increment of 1.0% of final average monthly compensation for each year of service in excess of 25 years, plus an additional 1.0% of average monthly compensation for each year or partial year of military service. For members hired after August 24, 2011, the basic benefit is 50% of base pay and longevity.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death. The payment shall be paid to the surviving spouse until death and thereafter to surviving dependent children in equal shares until age 18. At retirement, the member may select an optional form of payment that is an actuarial equivalent of a life annuity.

Service Related Disability Benefit:

None

MUNICIPALITY OF MOUNT LEBANON FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 364,155	\$ 330,893
Interest	993,682	1,031,986
Difference between expected and actual experience	-	(179,545)
Changes of assumptions	-	324,581
Benefit payments, including refunds of member contributions	<u>(489,422)</u>	<u>(478,956)</u>
Net Change in Total Pension Liability	868,415	1,028,959
Total Pension Liability – Beginning	<u>13,125,232</u>	<u>13,993,647</u>
Total Pension Liability – Ending (a)	<u><u>\$ 13,993,647</u></u>	<u><u>\$ 15,022,606</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 448,324	\$ 455,969
Contributions – member	72,526	82,730
Net investment income	887,616	31,987
Benefit payments, including refunds of member contributions	<u>(489,422)</u>	<u>(478,956)</u>
Administrative expense	<u>(9,888)</u>	<u>(51,122)</u>
Net Change in Plan Fiduciary Net Position	909,156	40,608
Plan Fiduciary Net Position – Beginning	<u>13,295,484</u>	<u>14,204,640</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 14,204,640</u></u>	<u><u>\$ 14,245,248</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ (210,993)</u></u>	<u><u>\$ 777,358</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.51%	94.83%
Estimated Covered Employee Payroll	\$ 1,826,798	\$ 1,966,010
Net Pension Liability as a Percentage of Covered Employee Payroll	(11.55)%	39.54%

MUNICIPALITY OF MOUNT LEBANON FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 352,303	\$ 311,943	\$ 297,870
Interest	1,101,371	1,126,813	1,172,120
Difference between expected and actual experience	78,650	(736,092)	(86,189)
Changes of assumptions	-	256,159	-
Benefit payments, including refunds of member contributions	<u>(531,475)</u>	<u>(637,575)</u>	<u>(792,299)</u>
Net Change in Total Pension Liability	1,000,849	321,248	591,502
Total Pension Liability – Beginning	<u>15,022,606</u>	<u>16,023,455</u>	<u>16,344,703</u>
Total Pension Liability – Ending (a)	<u>\$16,023,455</u>	<u>\$16,344,703</u>	<u>\$16,936,205</u>
 Plan Fiduciary Net Position			
Contributions – employer	\$ 364,036	\$ 338,241	\$ 230,060
Contributions – member	84,081	91,154	89,058
Net investment income	832,846	2,443,097	(884,144)
Benefit payments, including refunds of member contributions	<u>(531,475)</u>	<u>(637,575)</u>	<u>(792,299)</u>
Administrative expense	<u>(43,140)</u>	<u>(33,886)</u>	<u>(29,911)</u>
Net Change in Plan Fiduciary Net Position	706,348	2,201,031	(1,387,236)
Plan Fiduciary Net Position – Beginning	<u>14,245,248</u>	<u>14,951,596</u>	<u>17,152,627</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$14,951,596</u>	<u>\$17,152,627</u>	<u>\$15,765,391</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 1,071,859</u>	<u>\$ (807,924)</u>	<u>\$ 1,170,814</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.31%	104.94%	93.09%
 Estimated Covered Employee Payroll	\$ 1,895,055	\$ 1,823,074	\$ 1,929,787
 Net Pension Liability as a Percentage of Covered Employee Payroll	56.56%	(44.32)%	60.67%

MUNICIPALITY OF MOUNT LEBANON FIREMEN'S 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 municipality as of December 31, 2015, 2016, 2017, and 2018, calculated using the discount rate of 7.25%, as well as what the municipality'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:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/15	\$ 2,521,127	\$ 777,358	\$ (692,408)
Net Pension Liability – 12/31/16	\$ 2,909,237	\$ 1,071,859	\$ (477,361)
Net Pension Liability – 12/31/17	\$ 1,082,061	\$ (807,924)	\$ 2,395,225
Net Pension Liability – 12/31/18	\$ 3,110,898	\$ 1,170,814	\$ (458,905)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 448,324	\$ 448,324	\$ -	\$1,826,798	24.54%
2015	455,969	455,969	-	1,966,010	23.19%
2016	364,036	364,036	-	1,895,055	19.21%
2017	338,241	338,241	-	1,823,074	18.55%
2018	230,060	230,060	-	1,929,787	11.92%

MUNICIPALITY OF MOUNT LEBANON FIREMEN'S PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	-4.67%
2017	16.36%
2016	5.95%
2015	0.02%
2014	6.90%

MUNICIPALITY OF MOUNT LEBANON 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, 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	\$ 13,562,552	\$ 14,138,683	\$ 576,131	95.9%
01-01-17	15,601,522	15,543,522	(58,000)	100.4%
01-01-19	16,709,786	16,939,441	229,655	98.6%

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, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. 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.

MUNICIPALITY OF MOUNT LEBANON 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.

MUNICIPALITY OF MOUNT LEBANON 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years
Asset valuation method	4-year smoothing - the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases *	4.75%

* Includes inflation at 2.75%

MUNICIPALITY OF MOUNT LEBANON FIREMEN'S PENSION PLAN
REPORT DISTRIBUTION LIST

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