COMPLIANCE AUDIT

O'Hara Township
Non-Uniformed Pension Plan
Allegheny County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

May 2019

Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Township Council
O'Hara Township
Allegheny County
Pittsburgh, PA 15238

We have conducted a compliance audit of the O'Hara Township 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and

2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 that there were no benefit calculations prepared for the years covered by our audit period.

- 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.

O'Hara Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the O'Hara Township 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 township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the O'Hara Township Non-Uniformed 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 O'Hara Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

May 17, 2019

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

Page

Background 1

Status of Prior Finding 3

Supplementary Information 4

Report Distribution List 11

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 O'Hara Township 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 O'Hara Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1264, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1970. Active members are required to contribute 3 percent of earnings to the plan. As of December 31, 2018, the plan had 13 active members, no terminated members eligible for vested benefits in the future, and 8 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 65 and 10 years of service.
Early Retirement	Age 62 and 10 years of service.
Vesting	For Public Works employees, 100% after 10 years of service, for Clerical employees, 100% after 7 years of service.

Retirement Benefit:

For Public Service employees, a monthly benefit equal to 1.31% of Final Monthly Average Compensation, averaged over the final 60 months, multiplied by the Participant's Years of Service. For Clerical employees, a monthly benefit equal to 1.3% of Final Monthly Average Compensation averaged over the final 36 months, multiplied by the Participant's Years of Service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	The normal form of benefit payment is a life annuity with 120 months guaranteed. At retirement, the participant may select an optional form of payment that is an actuarial equivalent of the normal form.

Service and Non-Service Related Disability Benefit:

Following the later of age 40 or the completion of 10 years of service, the accrued benefit is payable, reduced by social security disability benefits, workers compensation and other disability benefits provided by the employer.

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

O'Hara Township has complied with the prior audit recommendation concerning the following:

- Inconsistent Pension Benefits

  Effective January 9, 2016, the township adopted Ordinance No. 1305 which corrected the inconsistency regarding the deferred vesting benefit.

O'HARA TOWNSHIP 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 AND 2015

	2014	2015
Total Pension Liability		
Service cost	$ 59,809	$ 64,230
Interest	166,794	183,117
Difference between expected and actual experience	-	443
Changes of assumptions	-	81,977
Benefit payments, including refunds of employee contributions	(98,869)	(92,624)
Net Change in Total Pension Liability	127,734	237,143
Total Pension Liability – Beginning	2,212,650	2,340,384
Total Pension Liability – Ending (a)	$ 2,340,384	$ 2,577,527
Plan Fiduciary Net Position		
Contributions – employer	$ 5,518	$ 11,018
Contributions – employee	26,168	27,546
Net investment income	221,939	23,205
Benefit payments, including refunds of employee contributions	(98,869)	(92,624)
Administrative expense	(700)	(23,525)
Net Change in Plan Fiduciary Net Position	154,056	(54,380)
Plan Fiduciary Net Position – Beginning	3,002,412	3,156,468
Plan Fiduciary Net Position – Ending (b)	$ 3,156,468	$ 3,102,088
Net Pension Liability (Asset) – Ending (a-b)	$ (816,084)	$ (524,561)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	134.9%	120.4%
Covered Payroll	$ 872,249	$ 900,456
Net Pension Liability (Asset) as a Percentage of Covered Payroll	(93.6%)	(58.3%)

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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

	2016	2017
Total Pension Liability		
Service cost	$ 67,442	$ 69,621
Interest	194,785	210,355
Change of benefit terms	-	18,548
Difference between expected and actual experience	-	(27,108)
Changes of assumptions	-	139,851
Benefit payments, including refunds of employee contributions	(97,423)	(85,089)
Net Change in Total Pension Liability	164,804	326,178
Total Pension Liability – Beginning	2,577,527	2,742,331
Total Pension Liability – Ending (a)	$ 2,742,331	$ 3,068,509
Plan Fiduciary Net Position		
Contributions – employer	$ 4,717	$ 6,460
Contributions – employee	26,452	27,841
Net investment income	144,802	521,449
Benefit payments, including refunds of employee contributions	(97,423)	(85,089)
Administrative expense	(21,880)	(20,516)
Net Change in Plan Fiduciary Net Position	56,668	450,145
Plan Fiduciary Net Position – Beginning	3,102,088	3,158,756
Plan Fiduciary Net Position – Ending (b)	$ 3,158,756	$ 3,608,901
Net Pension Liability (Asset) - Ending (a-b)	$ (416,425)	$ (540,392)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	115.2%	117.6%
Covered Payroll	$ 899,736	$ 930,963
Net Pension Liability (Asset) as a Percentage of Covered Payroll	(46.3%)	(58.0%)

O’HARA TOWNSHIP 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 township as of December 31, 2015 and 2016, calculated using the discount rate of 7.5%, as well as what the township’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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/15	$ (221,176)	$ (524,561)	$ (788,651)
Net Pension Liability – 12/31/16	$ (99,759)	$ (416,425)	$ (692,496)

In addition, the following presents the net pension liability of the township as of December 31, 2017, calculated using the discount rate of 7.25%, as well as what the township’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 – 12/31/17	$ (192,965)	$ (540,392)	$ (841,714)

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.69%
2016	4.72%
2015	0.74%
2014	8.08%

O'HARA TOWNSHIP 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, 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	$2,558,272	$ 2,099,886	$ (458,386)	121.8%
01-01-15	2,955,508	2,422,804	(532,704)	122.0%
01-01-17	3,322,998	2,873,622	(449,376)	115.6%

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 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.

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.

O’HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	None	N/A
2014	$ 5,518	100.0%
2015	11,018	100.0%
2016	4,717	100.0%
2017	6,460	100.0%
2018	5,794	129.4%

O'HARA TOWNSHIP 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, 2017
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	7.25%
Projected salary increases *	4.50%

* Includes inflation at 2.75%

O'HARA TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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