COMPLIANCE AUDIT

Oakmont Borough Police Pension Plan

Allegheny County, Pennsylvania

For the Period

January 1, 2014 to December 31, 2017

August 2018

EUGENE A. DEPASQUALE • AUDITOR GENERAL •

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
Oakmont Borough
Allegheny County
Oakmont, PA 15139

We have conducted a compliance audit of the Oakmont Borough Police Pension Plan for the period January 1, 2014 to December 31, 2017. 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 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 the 2 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 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.

- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Oakmont Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2014, 2015, and 2016, 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 Oakmont Borough Police 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 Oakmont 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 – Inconsistent Pension Benefits

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 Oakmont 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.

Eugene A. DePasquale

July 24, 2018

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 Oakmont Borough Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Oakmont Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. O36-2014, effective January 1, 2014, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established July 12, 1949. Active members are required to contribute an amount equal to between 5 percent and 8 percent of compensation to the plan; however, member contributions were reduced to 2.5% during the audit period. As of December 31, 2017, the plan had 5 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, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of $100 per month for each year of service in excess of 26 years, up to a maximum of $200 per month.

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.

Service Related Disability Benefit:

The accrued benefit is payable (using a denominator of 25) but no less than 50% of the member’s salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

Finding - Inconsistent Pension Benefits

Condition: The pension plan's governing document, Ordinance No. 036-2014, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the borough, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement
Payment of Survivor Benefit	The Survivor Benefit shall be paid monthly to the surviving spouse of the Participant, if any, until the date of death of the surviving spouse. Upon the death of the surviving spouse, or if there is no surviving spouse, the Survivor Benefit shall be paid monthly in equal shares to the surviving dependent child(ren) of the deceased Participant who have not attained eighteen (18) years of age, or if Attending College, under or attaining the age of twenty-three (23). The shares payable to the surviving dependent children shall be adjusted as each child ceases to be eligible to receive a share of the benefit hereunder.	Pension benefits are to be provided to the widow or children under 18 years of age of a police officer who dies after having obtained eligibility to receive a normal retirement pension benefit, meaning the police officer was actually receiving a pension when he died, or that he was eligible by reason of age and service for retirement pension when he died. The pension benefits may be provided to the spouse only if she has not remarried or died. [Emphasis added.]
Deferred Retirement Option Plan (DROP)	No provision	Effective January 1, 2018 the Deferred Retirement Option Plan is created as an optional form of benefit under the existing Oakmont Borough Pension Plan.

We also note that the survivor benefit disclosed in the collective bargaining agreement covering the period January 1, 2018 to December 31, 2021, does not provide for a lifetime benefit to the surviving spouse as required by Act 600, as amended.

Finding - (Continued)

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Furthermore, Section 1(a)(4) of Act 600 states:

> The surviving spouse of a member of the police force or a former member of the police force who, prior to April 18, 2002, retired on pension and dies subsequent to retirement or who, after April 16, 2002, retires on pension and dies subsequent to retirement, or if no spouse survives or if he or she survives and subsequently dies, then the child or children under the age of eighteen years or, if attending college, under or attaining the age of twenty-three years, of a member of the police force or a member who retires on pension who dies shall during her lifetime in the case of a surviving spouse or until reaching the age of eighteen years or if attending college, under or attaining the age of twenty-three years, in the case of a child or children, be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death. [Emphasis added.]

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions that comply with Act 600 at their earliest opportunity to do so.

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.

OAKMONT BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 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	$ 69,982	$ 70,956
Interest	208,186	213,447
Difference between expected and actual experience	-	(66,833)
Benefit payments, including refunds of member contributions	(134,442)	(128,215)
Net Change in Total Pension Liability	143,726	89,355
Total Pension Liability - Beginning*	3,182,980	3,342,779
Total Pension Liability - Ending (a)	$ 3,326,706	$ 3,432,134
Plan Fiduciary Net Position		
Contributions – employer	$ 106,718	$ 131,244
Contributions – member	14,167	15,999
Net investment income	100,922	(38,788)
Benefit payments, including refunds of member contributions	(134,442)	(128,215)
Administrative expense	(12,571)	(26,513)
Net Change in Plan Fiduciary Net Position	74,794	(46,273)
Plan Fiduciary Net Position - Beginning*	2,784,819	2,887,620
Plan Fiduciary Net Position - Ending (b)	$ 2,859,613	$ 2,841,347
Net Pension Liability - Ending (a-b)	$ 467,093	$ 590,787
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.96%	82.80%
Estimated Covered Employee Payroll	$ 571,143	$ 609,337
Net Pension Liability as a Percentage of Covered Employee Payroll	81.78%	96.96%

* The 2015 beginning Total Pension Liability and Plan Fiduciary Net Position amounts were adjusted to include accrued interest.

OAKMONT BOROUGH POLICE 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	$ 74,149	$ 86,202
Interest	221,916	222,344
Difference between expected and actual experience	-	(157,822)
Changes of assumptions	-	321,685
Benefit payments, including refunds of member contributions	(187,326)	(172,924)
Net Change in Total Pension Liability	108,739	299,485
Total Pension Liability - Beginning	3,432,134	3,540,873
Total Pension Liability - Ending (a)	$ 3,540,873	$ 3,840,358
Plan Fiduciary Net Position		
Contributions – employer	$ 131,328	$ 121,121
Contributions – member	14,090	13,054
Net investment income	104,710	349,107
Benefit payments, including refunds of member contributions	(187,326)	(172,924)
Administrative expense	(32,560)	(32,469)
Net Change in Plan Fiduciary Net Position	30,242	277,889
Plan Fiduciary Net Position - Beginning**	2,841,347	2,870,247
Plan Fiduciary Net Position - Ending (b)	$ 2,871,589	$ 3,148,136
Net Pension Liability - Ending (a-b)	$ 669,284	$ 692,222
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.10%	81.98%
Estimated Covered Employee Payroll***	$ 571,294	
Net Pension Liability as a Percentage of Covered Employee Payroll	117.15%	

** The 2017 beginning Plan Fiduciary Net Position amount reflects an accrual adjustment.

*** Due to the timing of this audit, estimated covered-employee payroll for 2017 was not provided in this schedule.

OAKMONT BOROUGH POLICE 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, 2014, 2015, and 2016, calculated using the discount rate of 6.5%, 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:

	1% Decrease (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability - 12/31/14	$ 821,948	$ 467,093	$ 167,948
Net Pension Liability - 12/31/15	$ 964,788	$ 590,787	$ 274,981
Net Pension Liability - 12/31/16	$ 1,050,072	$ 669,284	$ 347,829

The following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 6.0%, 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:

	1% Decrease (5.0%)	Current Discount Rate (6.0%)	1% Increase (7.0%)
Net Pension Liability - 12/31/17	$ 1,133,995	$ 692,222	$ 323,170

OAKMONT 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	$ 2,692,957	$ 3,067,112	$ 374,155	87.8%
01-01-15	2,915,163	3,275,946	360,783	89.0%
01-01-17	3,052,678	3,704,736	652,058	82.4%

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 4-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.

OAKMONT 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.

OAKMONT 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	$ 77,142	100.0%
2013	105,738	100.0%
2014	105,979	100.7%
2015	131,244	100.0%
2016	131,328	100.0%
2017	121,121	100.0%

OAKMONT 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	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases*	4.5%

* Includes inflation at 2.75%

OAKMONT BOROUGH POLICE PENSION PLAN
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