

COMPLIANCE AUDIT

White Oak Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

July 2019



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
White Oak Borough
Allegheny County
White Oak, PA 15131

We have conducted a compliance audit of the White Oak Borough Non-Uniformed 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and 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 whether retirement benefits calculated for both of the plan members who terminated employment and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.
- 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.

White Oak Borough contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year 2016, which is 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 White Oak 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

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 White Oak 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 – Untimely Deposit Of State Aid

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 White Oak 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.

July 12, 2019


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 White Oak 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 White Oak Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1001, as amended. Effective January 1, 2012, the plan is controlled by the provisions of Resolution No. 3998. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established January 1, 1968. Active members are required to contribute 3.25 percent of compensation to the plan. As of December 31, 2018, the plan had 9 active members, 4 terminated members eligible for vested benefits in the future and 3 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 55 and 9 years of service.
- Vesting 100% vesting available after 9 years of service.

Retirement Benefit:

Benefits equals 1.5% of final average monthly salary (total pay averaged over the final 36 months of employment) multiplied by years of service on or after January 1, 1992, plus 1.0% of final average monthly salary multiplied by years of service prior to January 1, 1992.

Survivor Benefit:

- Before Retirement Eligibility Before Vesting Eligibility Refund of member contributions plus interest.
- After Vesting Eligibility: The survivor portion of the 50% joint & survivor annuity that is actuarially equivalent to the accrued benefit as payable immediately to the spouse.
- After Retirement Eligibility None except as provided by the form of benefit payment in force at the time of death occurs.

Disability Benefit:

After completing 9 years of service and qualifies for Social Security disability benefits, the participant's accrued benefit payable for the duration of this disability until normal retirement age upon which the normal retirement benefit will be payable.

WHITE OAK BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

White Oak 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 audit period, municipal officials complied with the instructions that accompanied Certification Form AG 385s and accurately reported the required pension data.

WHITE OAK BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2018 state aid allocation into the pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2018 state aid allocation in the amount of \$168,638 on September 27, 2018, but did not deposit the funds into its pension plans until November 12, 2018.

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 2018 state aid was not deposited timely into the municipality’s pension plans because internal control procedures were not effective to ensure the timely deposit of state aid during 2018.

Effect: Although the state aid was eventually deposited into the plans, the interest earned beyond the 30 day grace period was not deposited into the plans. When state aid is not deposited into a pension plan account in a timely manner, 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 pay its pension plans the interest earned during the period beyond the 30 day grace period allowed by Act 205. 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 implement adequate internal control procedures to ensure that future state aid allocations are consistently deposited timely in accordance with Act 205 requirements.

Management’s Response: Municipal officials agreed with the finding without exceptions.

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

WHITE OAK BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 through 8 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	\$ 46,742	\$ 44,068
Interest	131,901	133,976
Change of benefit terms	-	19,398
Difference between expected and actual experience	-	(30,461)
Changes of assumptions	-	6,877
Benefit payments, including refunds of member contributions	(34,891)	(34,920)
Net Change in Total Pension Liability	<u>143,752</u>	<u>138,938</u>
Total Pension Liability – Beginning	<u>2,092,679</u>	<u>2,236,431</u>
Total Pension Liability – Ending (a)	<u><u>\$ 2,236,431</u></u>	<u><u>\$ 2,375,369</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 103,085	\$ 96,011
Contributions – member	14,909	16,503
Net investment income	90,275	(14,752)
Benefit payments, including refunds of member contributions	(34,891)	(34,920)
Administrative expense	(5,183)	(13,394)
Net Change in Plan Fiduciary Net Position	<u>168,195</u>	<u>49,448</u>
Plan Fiduciary Net Position – Beginning	<u>1,805,104</u>	<u>1,973,299</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 1,973,299</u></u>	<u><u>\$ 2,022,747</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 263,132</u></u>	<u><u>\$ 352,622</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.2%	85.2%
Estimated Covered Employee Payroll	\$ 484,121	\$ 480,137
Net Pension Liability as a Percentage of Covered Employee Payroll	54.4%	73.4%

WHITE OAK BOROUGH 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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 45,831	\$ 46,059
Interest	134,639	146,024
Difference between expected and actual experience	-	94,496
Changes of assumptions	-	317,389
Benefit payments, including refunds of member contributions	(311,719)	(485,293)
Net Change in Total Pension Liability	(131,249)	118,675
Total Pension Liability – Beginning	2,375,369	2,244,120
Total Pension Liability – Ending (a)	<u>\$ 2,244,120</u>	<u>\$ 2,362,795</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 99,531	\$ 101,946
Contributions – member	15,168	15,002
Net investment income	101,178	119,849
Benefit payments, including refunds of member contributions	(311,719)	(485,293)
Administrative expense	(11,687)	(10,530)
Net Change in Plan Fiduciary Net Position	(107,529)	(259,026)
Plan Fiduciary Net Position – Beginning	2,022,747	1,915,218
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,915,218</u>	<u>\$ 1,656,192</u>
Net Pension Liability – Ending (a-b)	<u>\$ 328,902</u>	<u>\$ 706,603</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.3%	70.1%
Estimated Covered Employee Payroll	\$ 437,615	\$ 467,925
Net Pension Liability as a Percentage of Covered Employee Payroll	75.2%	151.0%

WHITE OAK 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 and 2016, 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:

	<u>1% Decrease (5.0%)</u>	<u>Current Discount Rate (6.0%)</u>	<u>1% Increase (7.0%)</u>
Net Pension Liability – 12/31/15	\$ 643,674	\$ 352,622	\$ 103,457
Net Pension Liability – 12/31/16	\$ 625,638	\$ 328,902	\$ 74,230

In addition, the following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 5.50%, 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 (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability – 12/31/17	\$ 1,058,900	\$ 706,603	\$ 406,981

WHITE OAK BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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*
2009	\$ 65,187	\$ 65,187	\$ -		
2010	89,323	89,323	-	\$ 583,538	15.3%
2011**	96,682	81,688	14,994		
2012	92,800	92,800	-	568,094	16.3%
2013	107,037	107,040	(3)		
2014	103,085	103,085	-	484,121	21.3%
2015	96,011	96,011	-	480,137	20.0%
2016	99,531	99,531	-	437,615	22.7%
2017	101,946	101,946	-	467,925	21.8%
2018	103,606	103,606	-		

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

** For 2011, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURN

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

2017	6.25%
2016	5.18%
2015	(0.75%)
2014	4.22%

WHITE OAK 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, 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	\$ 1,784,722	\$ 2,220,990	\$ 436,268	80.4%
01-01-15	1,879,083	2,232,245	353,162	84.2%
01-01-17	1,890,240	2,656,005	765,765	71.2%

WHITE OAK 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.

WHITE OAK 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	7 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0% (net of investment expenses)
Projected salary increases *	5.50%
Cost-of-living adjustments	4.0%

* Includes inflation at 2.75%

WHITE OAK BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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