COMPLIANCE AUDIT

Whitehall Borough
Non-Uniformed Pension Plan

Allegheny County, Pennsylvania

For the Period
January 1, 2016 to December 31, 2018

November 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
Whitehall Borough
Allegheny County
Pittsburgh, PA 15236

We have conducted a compliance audit of the Whitehall 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 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.

- We determined whether retirement benefits calculated for all three 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 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.

Whitehall Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2016 and 2017, 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 Whitehall 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 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 Whitehall Borough 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 Whitehall 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.

November 18, 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 Whitehall 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 Whitehall Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1044. The plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established July 1, 1965. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 23 active members, 5 terminated members eligible for vested benefits in the future, and 19 retirees receiving pension benefits from the plan.

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 62 and 10 years of service.
Early Retirement	None
Vesting	A member is 25% vested after 5 years of service, increasing by 5% for the next 3 years, further increasing by 10% for the next 2 years and by 20% until reaching 100% after 12 years of service.

Retirement Benefit:

Benefit equals 1.5% of final average earnings (averaged over the highest 5 consecutive calendar years during the last 10 years of employment) multiplied by years of credited service.

Survivor Benefit:

Before Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was eligible to receive had the member retired on the first day of the month of death.
After Retirement Eligibility	The normal benefit form of payment is a life annuity with 120 payments guaranteed. At retirement, the participant may select an optional form of benefit payment that may provide a survivor benefit.

Service Related Disability Benefit:

After 10 years of service and qualification for Social Security disability benefits, a monthly benefit equal to 1.0% of final average earnings multiplied by years of service at disablement.

WHITEHALL BOROUGH NON-UNIFORMED 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

	2014	2015
Total Pension Liability		
Service cost	$ 116,701	$ 123,228
Interest	328,775	340,241
Difference between expected and actual experience	-	(114,820)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions*	(186,917)	(180,581)
Net Change in Total Pension Liability	258,559	168,068
Total Pension Liability – Beginning	4,358,734	4,617,293
Total Pension Liability – Ending (a)	$ 4,617,293	$ 4,785,361
Plan Fiduciary Net Position		
Contributions – employer	$ 326,790	$ 333,081
Net investment income	293,644	(336)
Benefit payments, including refunds of member contributions**	(191,503)	(180,581)
Administrative expense	(20,088)	(25,656)
Net Change in Plan Fiduciary Net Position	408,843	126,508
Plan Fiduciary Net Position – Beginning	3,749,863	4,158,706
Plan Fiduciary Net Position – Ending (b)	$ 4,158,706	$ 4,285,214
Net Pension Liability – Ending (a-b)	$ 458,587	$ 500,147
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.07%	89.55%
Estimated Covered Employee Payroll	$ 1,268,348	$ 1,439,801
Net Pension Liability as a Percentage of Covered Employee Payroll	36.16%	34.74%

Note: Benefit payment amounts for 2014 determined by * actuary, ** borough.

WHITEHALL 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

	2016	2017
Total Pension Liability		
Service cost	$ 128,384	$ 140,973
Interest	361,965	394,076
Difference between expected and actual experience	-	(21,300)
Changes of assumptions	-	300,958
Benefit payments, including refunds of member contributions	(178,255)	(168,059)
Net Change in Total Pension Liability	312,094	646,648
Total Pension Liability – Beginning	4,785,361	5,097,455
Total Pension Liability – Ending (a)	$ 5,097,455	$ 5,744,103
Plan Fiduciary Net Position		
Contributions – employer	$ 251,704	$ 260,603
Net investment income	327,666	585,941
Benefit payments, including refunds of member contributions	(178,255)	(168,059)
Administrative expense	(18,564)	(2,539)
Net Change in Plan Fiduciary Net Position	382,551	675,946
Plan Fiduciary Net Position – Beginning	4,285,214	4,667,765
Plan Fiduciary Net Position – Ending (b)	$ 4,667,765	$ 5,343,711
Net Pension Liability – Ending (a-b)	$ 429,690	$ 400,392
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	91.57%	93.03%
Estimated Covered Employee Payroll	$ 1,539,081	$ 1,397,791
Net Pension Liability as a Percentage of Covered Employee Payroll	27.92%	28.64%

WHITEHALL 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 7.50%, 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:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/15	$ 988,396	$ 500,147	$ 77,233
Net Pension Liability – 12/31/16	$ 934,176	$ 429,690	$ (7,634)

In addition, the following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/17	$ 991,356	$ 400,392	$ (105,750)

WHITEHALL 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
2014	$ 326,790	$ 326,790	$ -	$1,268,348	25.77%
2015	333,081	333,081	-	1,439,801	23.13%
2016	251,704	251,704	-	1,539,081	16.35%
2017	260,603	260,603	-	1,397,791	18.64%
2018	253,363	253,363	-	*	

* Due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.24%
2016	7.71%
2015	(0.01)%
2014	7.93%

WHITEHALL 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	$ 3,071,266	$ 4,109,920	$ 1,038,654	74.7%
01-01-15	3,978,587	4,502,473	523,886	88.4%
01-01-17	4,812,902	5,377,074	564,172	89.5%

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.

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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.

WHITEHALL 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	6 years
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%

WHITEHALL BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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