

COMPLIANCE AUDIT

Sewickley Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania

December 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Sewickley Borough
Allegheny County
Sewickley, PA 15143

We have conducted a compliance audit of the Sewickley Borough Non-Uniformed Pension Plan pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed 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 whether 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 area 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:

- For the period January 1, 2023 to December 31, 2023, we determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the deposit date of state aid and determining whether the deposit was made within 30 days of receipt.

- For the period January 1, 2023 to December 31, 2023, we determined whether 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.
- For the period January 1, 2023 to December 31, 2023, we determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations.
- For the period January 1, 2023 to December 31, 2023, and through the completion of our fieldwork procedures, we determined whether retirement benefits calculated for plan members who retired during the period noted 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.

Sewickley Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.

The results of our procedures indicated that, in all significant respects, the Sewickley Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, 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 Sewickley 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
November 19, 2024

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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.

Annual state aid allocations are provided from a two 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 Sewickley Borough Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Sewickley Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1345, effective January 1, 2013, which effectively froze the plan to new membership and established a defined contribution plan for non-uniformed employees hired on or after January 1, 2013 (*separately audited*). The defined benefit plan is also affected by the provisions of collective bargaining agreements between the borough and its non-uniformed employees. The plan was established March 1, 1974. Active members are not required to contribute to the plan. As of December 31, 2023, the plan had 8 active members, 3 terminated members eligible for vested benefits in the future, and 17 retirees receiving pension benefits from the plan.

SEWICKLEY BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Inconsistent Pension Benefits

Condition: The pension plan’s governing document, Ordinance No. 1345, contains pension benefit provisions that conflict with the collective bargaining agreement (CBA) between the borough and the wastewater treatment plant employees and with the CBA between the borough and the employees’ association. The CBAs provide for retirement at age 55 with 10 years of service while the governing document provides an early retirement at age 55 with 10 years of service with a benefit reduction, and a regular retirement at age 65 with 5 years of service. In addition, the pension multiplier in the CBA for the wastewater employees differs from that provided in the governing document.

The governing document, Ordinance No. 1345, contains the following provisions:

Section 1.12: “Early Retirement Date” shall mean when a Participant retires or terminates employment with the Employer if such date is prior to the Participant’s Normal Retirement Date but on or after the later of the following dates:

- (a) the date when the Employee attains age fifty-five (55); and
- (b) the date when the Employee completes ten (10) Years of Service.

Section 4.02: Early Retirement - If a Participant shall retire on an Early Retirement Date, he shall be entitled to receive, upon making an election therefor, an immediate pension commencing on the first day of the month coincident with or next following his Early Retirement Date equal to the Participant’s Accrued Benefit determined as of his Early Retirement Date.

Section 1.01: “Accrued Benefit” shall mean, as of any given date, as the Participant’s projected monthly normal retirement benefit, determined in accordance with the formula provided under Section 4.01, multiplied by a fraction, the numerator of which is the Participant’s Years of Credited Service as of the date of determination and the denominator of which is the total Years of Credited Service which would be credited to the Participant as of his Normal Retirement Date if his regular employment with the Employer were to continue until such date.

Section 1.19: “Normal Retirement Age” shall mean the later of:

- (a) the date when a Participant attains age sixty-five (65); and
- (b) the date when the Participant completes five (5) Years of Service.

SEWICKLEY BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Section 4.01: Normal Retirement - Effective January 1, 2016, if a Participant retires on or after his or her Normal Retirement Date, he or she shall be entitled to receive a monthly retirement benefit commencing at retirement date, expressed in the Normal Form, equal to one and ninety-five tenths percent (1.95%) of his/her Average Monthly Compensation multiplied by his or her Credited Service (“Normal Retirement Benefit”). For any Participant who retires on or after his or her Normal Retirement Date after January 1, 2010, but prior to January 1, 2016, he or she shall be entitled to receive a monthly retirement benefit commencing at retirement date, expressed in the Normal Form, equal to one and eighty-five tenths percent (1.85%) of his/her Average Monthly Compensation multiplied by his or her Credited Service (“Normal Retirement Benefit”). The Normal Form of retirement benefit hereunder shall be a life annuity.

Article XII, Section 2 of the collective bargaining agreement between the borough and the wastewater treatment plant employees states:

Effective for employees retiring on or after January 1, 2005, at age 55 with ten (10) years of service, the monthly retirement benefit will be based on one and seven and one-half tenths percent (1.75%) of employee’s average monthly compensation during the last thirty-six (36) months of employment times credited years of service. Effective January 1, 2010, the pension multiplier will go from 1.75% to 1.85%.

Article XII, Section 1 of the collective bargaining agreement between the borough and the employees’ association states:

Effective for employees retiring on or after January 1, 2016. at age 55 with ten (10) years of service, the monthly retirement benefit will be based on one and nine & one-half-tenths percent (1.95%) of the employee’s average monthly compensation during the last thirty-six (36) months of employment times credited years of service.

In addition, the actuarial valuation report for the non-uniformed pension plan, with a valuation date of January 1, 2023, submitted to the Municipal Pension Reporting Program, reported eligibility requirements for a normal retirement benefit as age 65 with 5 years of service, and for an early retirement benefit as age 55 with 10 years of service.

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

SEWICKLEY BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure the governing plan document and the collective bargaining agreements contain 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 governing plan document and the collective bargaining agreements contain consistent benefit provisions 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.

SEWICKLEY 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, 2019, is as follows:

| | (1) | (2) | (3) | (4) |
|--------------------------|-------------------------------|---|--|----------------------|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Liability (b) - (a) | Funded Ratio (a)/(b) |
| 01-01-19 | \$ 4,865,420 | \$ 4,825,536 | \$ (39,884) | 100.8% |
| 01-01-21 | 5,711,449 | 5,153,170 | (558,279) | 110.8% |
| 01-01-23 | 6,333,676 | 5,497,080 | (836,596) | 115.2% |

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period subject to a corridor between 80 and 120 percent of the 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.

SEWICKLEY 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.

SEWICKLEY BOROUGH NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

| <u>Year Ended December 31</u> | <u>Actuarially Determined Contribution</u> | <u>Actual Contributions</u> | <u>Contribution Deficiency (Excess)</u> | <u>Covered- Employee Payroll</u> | <u>Contributions as a Percentage of Covered- Employee Payroll</u> |
|-----------------------------------|--|---------------------------------|---|--|---|
| 2014 | \$ 251,073 | \$ 251,073 | \$ - | \$ 979,041 | 25.64% |
| 2015 | 290,026 | 290,032 | (6) | 915,453 | 31.68% |
| 2016 | 270,930 | 270,930 | - | 914,467 | 29.63% |
| 2017 | 257,528 | 257,528 | - | 951,659 | 27.06% |
| 2018 | 213,711 | 213,711 | - | 877,291 | 24.36% |
| 2019 | 196,904 | 196,904 | - | 619,806 | 31.77% |
| 2020 | 68,360 | 68,360 | - | 687,920 | 9.94% |
| 2021 | 71,004 | 71,004 | - | 698,199 | 10.17% |
| 2022 | - | - | - | 734,740 | 0.00% |
| 2023 | - | - | - | 611,440 | 0.00% |

SEWICKLEY 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, 2023 |
| Actuarial cost method | Entry age normal |
| Amortization method | Not applicable |
| Remaining amortization period | None |
| 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 | 7.0% |
| Projected salary increases | 5.0% |

SEWICKLEY BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable George Shannon
Mayor

Ms. Cynthia Mullins
Council President

Ms. Donna Kaib
Borough Manager

Ms. Sherry L. Clarke
Administrative Assistant

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.