

COMPLIANCE AUDIT

Munhall Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2019 to December 31, 2023

August 2025



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
Munhall Borough
Allegheny County
Munhall, PA 15120

We were engaged to conduct a compliance audit of the Munhall Borough Police Pension Plan for the period January 1, 2019 to December 31, 2023 and to evaluate compliance with some requirements subsequent to that period when possible. The audit was conducted 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.

The objectives of the audit were:

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

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Munhall Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Results for Objective No. 1

For the portion of our audit related to determining if municipal officials took appropriate corrective action to address the finding contained in our prior report, it is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, which included examination of plan documents and interviews with selected officials, we were able to determine that borough officials took appropriate corrective action to address the finding contained in our prior report.

Results for Objective No. 2

For the portion of the audit related to determining if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, borough officials were unable to provide the documentation we requested in order to perform our audit, as detailed in the following finding:

Finding No. 1 – Failure To Maintain And Monitor An Adequate Record-Keeping System

Because of the limitations described in Finding No. 1, the scope of our work was not sufficient to enable us to conclude, and we do not express a conclusion, on whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

However, we were able to perform certain limited audit procedures as described below.

- We examined available supporting documentation to determine whether required annual employer contributions were deposited timely into the pension plan in accordance with applicable legislation.
- We examined the limited available demographic data and payroll for active members in an effort to determine AG 385 certification eligibility.

Based on the limited audit procedures we were able to perform, we have included the findings listed below in this report.

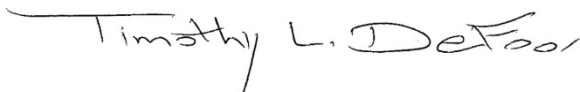
Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Furthermore, if the scope of our work had been sufficient to enable us to conclude on the pension plan's compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, additional instances of noncompliance or other matters may have been identified and reported herein.

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 Munhall Borough and, where appropriate, their responses have been included in the report.

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

Timothy L. DeFoor
Auditor General
June 18, 2025

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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 Munhall Borough Police 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 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 Munhall Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1582, 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 December 31, 1968. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2023, the plan had 21 active members, no terminated members eligible for vested benefits in the future, and 18 retirees receiving pension benefits from the plan.

MUNHALL BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

Munhall Borough has complied with the prior recommendation concerning the following:

- Pension Benefit Not In Compliance With Act 600 Provisions

The collective bargaining agreement effective January 1, 2024, at Section 2 of Article XIV, provides for a disability benefit that is consistent with the plan's governing document and is in compliance with Act 600.

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain And Monitor An Adequate Record-Keeping System

Condition: The borough did not maintain adequate records for examination during the course of the audit to indicate sufficient monitoring of the activity of the pension plan. The following records were not maintained or provided by the borough:

- Payroll records for the years ending December 31, 2019, 2020, 2021, and 2022 including documentation for wages used in pension calculations, MMO calculations, and AG 385 certifications (*refer to Finding Nos. 2 and 3*).
- Individual member contribution records for the audit period to determine whether amounts deducted agree with expected amounts and were deposited timely.
- Demographic data for the active, retired, and terminated pension plan members for the audit period to determine AG 385 certification eligibility and benefit eligibility.
- Internal Revenue Service Form 1099 for the retirees of the plan for the audit period to compare pension benefits due to retirees to actual benefits paid.
- DROP participant member account statements and balances for the audit period to verify the accuracy of the monthly pension benefits deposited into the DROP accounts.
- The collective bargaining agreement for the period January 1, 2020 to December 31, 2023 to reconcile negotiated benefits to governing plan provisions.
- A disability pension benefit calculation for a police officer who retired in March of 2021 to determine eligibility and whether the calculation was prepared in accordance with plan provisions and applicable laws and regulations.
- Documentation of military service time to determine eligibility for pension benefit.
- Documentation to support the deposit of the borough's defined benefit pension plans' 2024 MMOs.
- Documentation to support the deposit of 2024 state aid into an eligible pension plan to determine if deposited within 30 days of receipt.
- Supporting documentation for a disability benefit granted to a police officer in 2018 to determine eligibility and whether it was prepared in accordance with plan provisions. (*This documentation was also requested and not provided in the prior audit and was disclosed to municipal officials as a verbal observation at the conclusion of our prior audit.*)

Criteria: An adequate system of accounting and record-keeping is a prerequisite for sound administration of pension plans.

In addition, assets held in a pension plan account for the purpose of plan management are to be governed by the terms and provisions of the governing plan document and account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

MUNHALL BOROUGH POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Effective January 1, 2009, the borough adopted Ordinance No. 1536 which outlined the duties, responsibilities and functions of the borough manager which included the responsibility to borough council as the chief administrative officer for the administration of all borough affairs. During the audit period, the borough experienced a high rate of turnover in the borough manager position with three different managers. Accordingly, current plan officials were unaware of their various record-keeping and fiduciary responsibilities of pension plan administration.

Effect: The failure of borough officials to maintain adequate records prohibits plan officials from effectively monitoring the plan's financial operations. Inadequate records and monitoring of the police pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that borough officials establish accounting procedures, including record-keeping procedures, necessary to allow management to maintain effective awareness of and control over the activity of the plan. Borough officials should refer to the Auditor General's Bulletin No. 2-88 entitled "Preparation, Maintenance and Auditability of Financial Records," for further guidance in establishing adequate accounting procedures. We also recommend that plan officials examine all financial transactions of the pension plans to ensure the accuracy, timeliness, and propriety of the transactions.

Management Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The borough did not fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2022, as required by Act 205. The total MMO for the police pension plan calculated by the borough in September of 2021 was \$363,394; however, the borough's total deposit to the police pension plan on January 4, 2023, was \$351,867. Therefore, the borough had an unpaid MMO balance for the police pension plan of \$11,527 for the year 2022.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Section 302(d) of Act 205 states, in part:

Annually the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Effective January 1, 2009, the borough adopted Ordinance No. 1536 which outlined the duties, responsibilities and functions of the borough manager which included the responsibility to borough council as the chief administrative officer for the administration of all borough affairs. During the audit period, the borough experienced a high rate of turnover in the borough manager position with three different managers. Accordingly, the borough lacked adequate internal control procedures to ensure the MMO was fully paid (*refer to Finding No. 1*).

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, we prepared an estimate based on the amount disclosed on the pension plan's unaudited financial statements as Employer Contributions Receivable, the data certified on the January 1, 2023 actuarial valuation report filed with this department, and the amount actually paid into the plan on January 4, 2023. Our results indicate that there may have been a revised MMO calculation prepared for 2022, similar to the borough's non-uniformed defined benefit pension plan. However, due to the record-keeping issues cited in Finding No. 1, we were unable to fully conclude on this assessment.

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2022 MMO by the December 31, 2022, deadline, the municipality must add the 2022 MMO balance to the current year's MMO and include interest, as required by Act 205.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the borough pay the MMO due to the police pension plan for the year 2022, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials determine and pay the full MMO due to the plan in accordance with Act 205 requirements.

Management Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The borough certified an ineligible police officer (2 units) on the Certification Form AG 385 filed in 2020. The ineligible member retired effective April 1, 2019, and entered the borough's Deferred Retirement Option Program (DROP). In addition, the borough certified an ineligible police officer (2 units) on the Certification Form AG 385 filed in 2023. The ineligible member retired effective June 11, 2022, and also entered the borough's DROP. Furthermore, the borough failed to certify an eligible non-uniformed money purchase plan participant (1 unit) on the Certification Form AG 385 filed in 2024. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year. The applicable number of units attributable to each eligible recipient city, borough, incorporated town, and township shall be two units for each police officer and firefighter and one unit for each employee other than police officer or firefighter.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Effective January 1, 2009, the borough adopted Ordinance No. 1536 which outlined the duties, responsibilities and functions of the borough manager which included the responsibility to borough council as the chief administrative officer for the administration of all borough affairs. During the audit period, the borough experienced a high rate of turnover in the borough manager position with three different managers. Accordingly, plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough's state aid allocations were based on unit value, the incorrect certification of pension data affected the borough's state aid allocations, as identified below:

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

<u>Year</u>	<u>Type of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2020	Police	2	\$ 4,924	\$ 9,848
2023	Police	2	\$ 5,828	\$ 11,656
2024	Non-Uniformed	(1)	\$ 6,292	<u>(6,292)</u>
Net Overpayment of State Aid				<u>\$ 15,212</u>

In addition, the borough used the overpayment of state aid to pay the minimum municipal obligations (MMOs) due to the police and non-uniformed pension plans; therefore, if the reimbursement to the Commonwealth is made from the pension plans, the plans' MMOs will not be fully paid.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$15,212, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Liquor Control Audits, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police or non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Management Response: Municipal officials agreed with the finding without exception.

Auditor Conclusion: Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

MUNHALL BOROUGH POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

In addition, Finding No. 3 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$15,212, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Liquor Control Audits, 320 Finance Building, Harrisburg, PA 17120.

MUNHALL 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, 2019, 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)
01-01-19	\$ 12,576,938	\$ 12,571,381	\$ (5,557)	100.0%
01-01-21	15,197,474	14,490,935	(706,539)	104.9%
01-01-23	17,529,298	16,796,542	(732,756)	104.4%

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 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.

MUNHALL 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.

MUNHALL 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
2018	\$ 316,157	100.0%
2019	340,466	100.4%
2020	341,901	110.1%
2021	330,307	100.0%
2022	363,394	96.8%
2023	306,417	100.0%

MUNHALL 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	5.5%
Cost-of-living adjustments	Effective on each anniversary of retirement, a retiree will receive an increase in the monthly benefit equal to the percentage change in the CPI-W. Total increases may not exceed 30% of the retiree's original benefit nor may the sum of the retiree's benefit and all increases exceed 75% of the Final Monthly Average Salary used to compute the original benefit.

* Includes inflation at 2.75%

MUNHALL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable Rob Falce
Mayor

Mr. Rick Brennan
Council President

Mr. David Tye
Borough Manager

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