

COMPLIANCE AUDIT

West View Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

April 2016



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
West View Borough
Allegheny County
Pittsburgh, PA 15229

We have conducted a compliance audit of the West View Borough Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014. 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 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 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, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

West View 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.

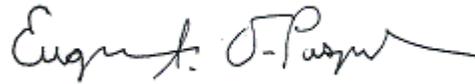
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West View Borough Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 West View 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 – Improper Pension Benefit Calculation

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 West View 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, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

March 28, 2016

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Improper Pension Benefit Calculation.....	3
Supplementary Information	4
Report Distribution List	9

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 West View Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The West View Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1406, as amended. 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, 1971. Active members are required to contribute 2.5 percent of compensation to the plan. As of December 31, 2014, the plan had 10 active members, 2 terminated members eligible for vested benefits in the future, and 9 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 60 and 10 years of service

Early Retirement 20 years of service

Vesting 100% after 10 years of service

Retirement Benefit:

A monthly benefit payable for life equal to 1.6% of Final Monthly Average Compensation (compensation averaged over the final 36 months of employment), multiplied by credited service.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

After Retirement Eligibility Refund of contributions plus interest, less any benefits paid; the normal form of benefit payment is a life annuity. At retirement, the participant can select an optional form of payment that is an actuarial equivalent of the normal form.

Service Related Disability Benefit:

If a participant becomes disabled after the completion of 10 years of service and qualifies for social security disability benefits, a monthly benefit equal to the accrued benefit at date of disablement will be payable.

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper Vested Pension Benefit Calculation

Condition: Borough officials included a \$35,000 severance payment in a vested pension calculation for a plan member who terminated employment in August 2011. The inclusion of a severance payment in the pension calculation was not authorized by the plan’s governing document. The vested member is scheduled to begin receiving the vested pension benefit on January 1, 2022.

Criteria: Section 1.12 of Ordinance No. 1406, the plan’s governing document, states, in part:

“Compensation” shall mean the total amount of remuneration paid to an Employee by the Employer for active services rendered in Employment and shall exclude extra or additional forms of remuneration including but not necessarily limited to amounts paid as allowance or reimbursement for expenses or payments made to an Employee welfare or benefit plan on behalf of the Employee. . . [Emphasis added]

Cause: The borough failed to adopt adequate internal control procedures to ensure that the vested pension benefit was calculated in accordance with the plan’s governing document.

Effect: Based on the inclusion of the severance payment, the vested pension benefit calculation is \$397 per month in excess of what is authorized by the plan’s governing document.

Recommendation: We recommend that borough officials review this vested pension benefit determination with their municipal solicitor and recalculate the vested pension benefit to exclude the severance payment in accordance with the pension plan’s governing document.

Management’s Response: At our exit conference held on February 2, 2016, management indicated that they would provide a written response to this finding within 10 days; however, as of March 28, 2016, no such response has been provided.

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

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 reflect 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	\$ 52,140
Interest	181,389
Benefit payments, including refunds of member contributions	(67,112)
Net Change in Total Pension Liability	166,417
Total Pension Liability - Beginning	2,399,322
Total Pension Liability - Ending (a)	\$ 2,565,739
Plan Fiduciary Net Position	
Contributions - employer	\$ 83,463
Contribution - member	14,678
Net investment income	191,489
Benefit payments, including refunds of member contributions	(67,112)
Administrative expense	(1,695)
Net Change in Plan Fiduciary Net Position	220,823
Plan Fiduciary Net Position - Beginning	2,592,966
Plan Fiduciary Net Position - Ending (b)	\$ 2,813,789
Net Pension Liability - Ending (a-b)	\$ (248,050)
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	109.7%
Estimated Covered Employee Payroll	\$ 587,131
Net Pension Liability as a Percentage of Covered Employee Payroll	(42.2%)

WEST VIEW 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 West View Borough Non-Uniformed Pension Plan, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$ 25,054	\$ (248,050)	\$ (482,806)

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
2007	\$ 88,538	\$ 88,538	\$ -		
2008	68,564	68,564	-	\$ 576,178	11.9%
2009	67,052	69,177	(2,125)		
2010	95,012	95,012	-	\$ 599,310	15.9%
2011	100,070	104,192	(4,122)		
2012	110,256	110,256	-	\$ 526,249	21.0%
2013	101,293	104,623	(3,330)		
2014	83,463	83,463	-	\$ 587,131	14.2%

* 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 every year prior to 2014.

SCHEDULE OF INVESTMENT RETURN

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

2014	8.07%
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WEST VIEW 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, 2009, 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)
01-01-09	\$ 1,645,365	\$ 1,873,398	\$ 228,033	87.8%
01-01-11	1,860,738	2,122,584	261,846	87.7%
01-01-13	2,169,142	2,246,998	77,856	96.5%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13 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.

WEST VIEW 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.

WEST VIEW 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	3 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.0%

* Includes inflation at 3.0%

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Governor
Commonwealth of Pennsylvania

The Honorable John R. Henry
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