

# COMPLIANCE AUDIT

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## West Hills Regional Police Pension Plan Cambria County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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January 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

West Hills Regional Police Commission  
Cambria County  
Johnstown, PA 15905

We have conducted a compliance audit of the West Hills Regional Police 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 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived pursuant to Act 600 provisions.
- × We determined whether retirement benefits calculated for the 2 plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 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, 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.
- × 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.

The West Hills Regional Police Commission contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the commission's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West Hills Regional Police 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 commission's internal controls as they relate to the commission'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 Hills Regional Police 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 the West Hills Regional Police Commission and, where appropriate, their responses have been included in the report. We would like to thank regional officials for the cooperation extended to us during the conduct of the audit.

January 27, 2016

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 West Hills Regional Police 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 including, but not limited to, the following:

Act 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

Act 600 Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The West Hills Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 546, as amended, and a plan document effective January 1, 2004, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the regional police commission and its police officers. The plan was established January 1, 1972. Active member contributions were waived during the current audit period. As of December 31, 2014, the plan had 11 active members, no terminated members eligible for vested benefits in the future, and 4 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 55 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 60% of average compensation final times accrued benefit adjustment, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month. Average compensation is the monthly average of total pay received for the 3 highest compensation years out of the last 10 years.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

Benefit equals 50% of average compensation on date of disability less any prior plan accrued benefits.

WEST HILLS REGIONAL POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 through 4 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	\$ 89,700
Interest	243,395
Difference between expected and actual experience	(120,624)
Changes of assumptions	97,341
Benefit payments, including refunds of member contributions	(57,340)
Net Change in Total Pension Liability	<u>252,472</u>
Total Pension Liability - Beginning	4,803,921
Total Pension Liability - Ending (a)	<u><u>\$ 5,056,393</u></u>
Plan Fiduciary Net Position	
General Municipal State Aid	\$ 85,716
Net investment income	184,402
Benefit payments, including refunds of member contributions	(57,340)
Administrative expense	(12,612)
Net Change in Plan Fiduciary Net Position	<u>200,166</u>
Plan Fiduciary Net Position - Beginning	4,275,428
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 4,475,594</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 580,799</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.51%
Estimated Covered Employee Payroll	\$ 597,441
Net Pension Liability as a Percentage of Covered Employee Payroll	97.21%

WEST HILLS REGIONAL POLICE 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 commission, calculated using the discount rate of 4.85%, as of December 31, 2014, as well as what the commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (3.85%) or 1 percentage-point higher (5.85%) than the current rate:

	1% Decrease (3.85%)	Current Discount Rate (4.85%)	1% Increase (5.85%)
Net Pension Liability	\$ 1,249,516	\$ 580,799	\$ 25,143

SCHEDULE OF INVESTMENT RETURNS

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

2014	4.33%
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WEST HILLS REGIONAL 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, 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	\$ 3,593,790	\$ 3,158,413	\$ (435,377)	113.8%
01-01-11	3,747,344	3,739,451	(7,893)	100.2%
01-01-13	4,069,805	4,365,090	295,285	93.2%

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 HILLS REGIONAL 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.

WEST HILLS REGIONAL POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 53,504	100.0%
2010	57,456	100.0%
2011	50,678	105.3%
2012	70,691	111.3%
2013	92,014	100.0%
2014	85,716	100.0%

WEST HILLS REGIONAL 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	5 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	5.5%
Projected salary increases *	3.5%

\* Includes inflation at 2.25%

WEST HILLS REGIONAL POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

West Hills Regional Police Pension Plan  
Cambria County  
1000 Luzerne Street  
Johnstown, PA 15905

<b>Mr. Robert Morgan</b>	Chairman, Regional Police Commission
<b>Mr. Michael W. Lose</b>	Chief Administrative Officer
<b>Mr. Thomas C. Gramling</b>	Treasurer
<b>Ms. Judith A. Fetcko</b>	Secretary

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).