

**WILKINSBURG BOROUGH POLICE PENSION PLAN**  
**ALLEGHENY COUNTY**  
**COMPLIANCE AUDIT REPORT**  
**FOR THE PERIOD**  
**JANUARY 1, 2007, TO DECEMBER 31, 2008**





**WILKINSBURG BOROUGH POLICE PENSION PLAN**

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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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Wilkesburg Borough 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 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 Wilkesburg Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 02722, 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 Honorable Mayor and Borough Council  
Wilkinsburg Borough  
Allegheny County  
Wilkinsburg, PA 15221

We have conducted a compliance audit of the Wilkinsburg Borough Police Pension Plan for the period January 1, 2007, to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit 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. Wilkinsburg 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 Wilkinsburg Borough 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 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 objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Wilkinsburg Borough Police 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 – Partial Compliance With Prior Audit Recommendation – Pension Benefits Not Authorized By Act 600

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Wilkinsburg Borough and, where appropriate, their responses have been included in the report.

February 9, 2010

JACK WAGNER  
Auditor General

WILKINSBURG BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Wilkesburg Borough has partially complied with the prior audit recommendation concerning the following:

- Pension Benefits Not Authorized By Act 600

The borough included a provision in the collective bargaining agreement between the police officers and the borough which states that the benefit structure for all full-time officers hired after January 1, 2004, shall be the minimum allowed by and shall fully conform with Act 600. In addition, the excess benefits currently being provided were reflected in the plan's actuarial valuation reports and funded in accordance with Act 205 funding standards. However, the borough failed to amend the normal retirement provision and the final average salary definition contained in the plan's governing document to reflect the updated collective bargaining agreement provision. Furthermore, the borough failed to determine the impact of the excess benefits currently being provided on their 2008 state aid allocation, as further discussed in the Finding and Recommendation section of this report.

WILKINSBURG BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Pension Benefits Not Authorized By Act 600

Condition: As disclosed in the prior audit report, the pension plan’s governing document grants benefit provisions that conflict with the collective bargaining agreement between the police officers and the borough and are not in compliance with Act 600. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Normal retirement benefit	The first day of the month coincident with or next following the date on which the Participant attains Normal Retirement Age which is the date on which the Participant completes twenty (20) years of service.	For all full-time officers hired prior to January 1, 2004, twenty (20) years of service regardless of age.  All full-time officers, hired after January 1, 2004, will become members of the Borough of Wilkesburg Police Pension Plan. The pension benefit structure applicable to such officers shall be the minimum allowed by and shall fully conform with Act 600.	A minimum of twenty-five (25) years of aggregate police service within the municipality and age 55, or of 50, if supported by an actuarial cost study.

WILKINSBURG BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Final average salary	The monthly average of Participant's Compensation over the highest three (3) calendar years of Employment.	For all full-time officers hired prior to January 1, 2004, the officers best three (3) calendar years.  All full-time officers, hired after January 1, 2004, will become members of the Borough of Wilkesburg Police Pension Plan. The pension benefit structure applicable to such officers shall be the minimum allowed by and shall fully conform with Act 600.	A monthly pension benefit equal to 50 percent of the member's average monthly salary during not more than the last 60 nor less than the last 36 months of employment.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the police pension plan's benefit structure should be in compliance with the provisions of Act 600.

Cause: The borough failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation. In addition, through the collective bargaining agreement process, municipal officials were only able to eliminate excess benefit provisions for police officers hired after January 1, 2004.

WILKINSBURG BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: Providing unauthorized pension benefits could increase the plan's pension costs and reduce the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. In addition, because the borough's 2008 state aid allocation was based on pension costs, the provision of unauthorized pension benefits may have resulted in the receipt of excess state aid and could also increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that municipal officials amend the plan's governing document to be consistent with the provisions contained in the collective bargaining agreement. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary must determine the impact, if any, of the excess benefits on the plan's 2008 state aid allocation and submit this information to the department.

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

WILKINSBURG 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-03	\$ 11,890,940	\$ 10,939,639	\$ (951,301)	108.7%	\$ 2,044,639	(46.5%)
01-01-05	11,739,885	11,932,070	192,185	98.4%	1,496,995	12.8%
01-01-07	11,633,506	11,409,974	(223,532)	102.0%	1,560,281	(14.3%)

Note: The market value of the plan's assets at 01-01-03 has been adjusted to reflect the smoothing of gains and/or losses over a 3-year averaging period. The market value of the plan's assets at 01-01-05 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. These methods 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.

WILKINSBURG 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

WILKINSBURG 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
2003	\$ 54,964	203.9%
2004	67,720	266.5%
2005	188,463	103.0%
2006	204,165	100.0%
2007	307,198	100.0%
2008	182,975	116.3%

WILKINSBURG BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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, 2007
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

WILKINSBURG BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Wilkinsburg Borough Police Pension Plan  
Allegheny County  
605 Ross Avenue  
Wilkinsburg, PA 15221

The Honorable John Thompson	Mayor
Ms. Eugenia Moore	Council President
Ms. Marla P. Marcinko	Borough Manager
Mr. G. David Egler	Finance Director

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).