

# COMPLIANCE AUDIT

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## Waynesburg Borough Police Pension Plan Greene County, Pennsylvania For the Period January 1, 2017 to December 31, 2021

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July 2022



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  
Waynesburg Borough  
Greene County  
Waynesburg, PA 15370

We have conducted a compliance audit of the Waynesburg Borough Police Pension Plan for the period January 1, 2017 to December 31, 2021. We also evaluated 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. 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 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 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 by the municipality.
- 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 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipient.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, 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.

Waynesburg Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years 2017, 2018, 2019, and 2020, 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 Waynesburg Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 objectives.

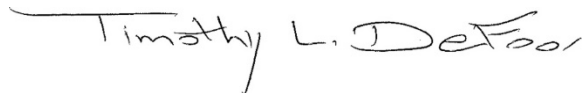
The results of our procedures indicated that, in all significant respects, the Waynesburg Borough

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 – Overpayment Of State Aid Due To Unauthorized 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 Waynesburg 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  
June 23, 2022

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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 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 Waynesburg 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 Waynesburg Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2 of 2019, as amended, effective January 1, 2018, adopted pursuant to Act 600. Prior to January 1, 2018, the pension plan was controlled by the provisions of Ordinance No. 4 of 1958, as amended, 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 March 30, 1953. Active members are required to contribute five percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2021, the plan had eight active members, one terminated member eligible for vested benefits in the future, and five retirees receiving pension benefits.

WAYNESBURG BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Status of Prior Audit Recommendation

· Inconsistent And Unauthorized Pension Benefits

The prior audit report disclosed that there were inconsistent benefit provisions among varying plan documents and/or provisions in such documents that were not authorized by Act 600, and three individuals (*including the non-rank and file police officer who retired under the previous agreement and began receiving benefits during 2015*) were receiving pension benefits in excess of those authorized by Act 600. It was again recommended that the borough take action to ensure the plan's governing documents contained consistent benefit provisions and that these benefits along with benefits negotiated in any separate agreements with non-rank and file officers, be limited to those authorized by Act 600.

During the current audit period, the borough adopted Ordinance No. 2 of 2019, effective January 1, 2018, which eliminated the inconsistencies with the collective bargaining agreement (CBA) and brought the plan's benefit structure into compliance with Act 600. In addition, as of May 31, 2019, there were no longer any separately executed agreements with non-rank and file officers which afforded benefits contrary to Act 600.

It was also disclosed in the prior audit report that to the extent that the borough was not in compliance with Act 600 and/or was contractually obligated to pay benefits to existing retirees more than those authorized by Act 600, the excess benefits must be reflected in Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards; however, such benefits would be deemed ineligible for funding with state pension aid. Although the borough did not receive state aid attributable to excess benefits being provided to retirees in the prior audit period because the borough received its state aid allocations based on unit value, the Department would continue to monitor the impact of the excess benefits being paid to retirees on the borough's subsequent state aid allocations.

During the years 2017, 2018, and 2019, the borough did not receive state aid attributable to excess pension benefits paid to retirees because the borough again received its state aid allocations based on unit value. However, during the years 2020 and 2021, the borough failed to timely determine the impact of the excess benefits paid and received excess state aid attributable to the excess benefits provided as further discussed in the Finding and Recommendation section of this report.

WAYNESBURG BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Overpayment Of State Aid Due To Unauthorized Pension Benefits**

Condition: As disclosed in the Status of Prior Finding section of this report, there are currently three retirees receiving pension benefits in excess of Act 600 and to the extent that the borough was contractually obligated to pay benefits to existing retirees more than those authorized by Act 600, excess benefits were required to be reflected in Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. However, the borough failed to timely determine the impact of the excess benefits on the municipality's annual state aid allocation for the years 2020 and 2021 and received excess state aid allocations as a result.

Criteria: To the extent that a municipality 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, such benefits are deemed ineligible for funding with state pension aid.

Cause: Previous agreements with non-rank and file officers of the police department authorized a pension benefit calculated based on 75% of final average salary (*Act 600 authorizes 50 percent of final average salary*). Currently three retired police officers are receiving excess benefits pursuant to this provision. As such, these excess pension benefits were reflected in the plan's Act 205 actuarial valuation reports submitted during the current audit period and used as the basis for determining the municipality's allocation of state aid distributed during 2020 and 2021. According to municipal officials, the borough consulted with the plan's actuary to determine whether a Supplemental Actuarial Information Form AG-MP-1 (AG-MP-1) was required to determine the impact of the excess benefits on the municipality's state aid allocations for the aforementioned years; however, the AG-MP-1 was not prepared by the plan's actuary until May 31, 2022.



WAYNESBURG BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: Because the borough's state aid allocation is determined, in part, by the information contained in the plan's actuarial valuation report, the correct inclusion of excess benefits in the actuarial valuation report resulted in the allocation of excess state aid to the borough in 2020 and 2021 attributable to excess benefits provided. Based on information from the borough's January 1, 2019, AG-MP-1, the impact of the excess benefits on the borough's state aid allocation for 2020 and 2021 totaled \$75,136, which must be returned to the Commonwealth.

In addition, the borough used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's 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 total overpayment of state aid, in the amount of \$75,136, be returned to the Commonwealth. A check in the determined amount, with interest compounded annually from the date of receipt to the 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 & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

If the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

We also recommend that the impact of the excess benefits on the borough's annual state aid allocations in years subsequent to 2021 be determined and any overpayments be reimbursed to the Commonwealth.

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

Auditor's 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.

WAYNESBURG BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the borough in the amount of \$75,136, 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 & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

WAYNESBURG 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, 2017, 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)
01-01-17	\$ 2,542,982	\$ 2,737,449	\$ 194,467	92.9%
01-01-19	2,699,596	2,861,948	162,352	94.3%
01-01-21	3,240,394	3,183,348	(57,046)	101.8%

WAYNESBURG 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.

WAYNESBURG BOROUGH POLICE 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>
2012	\$ 113,333	\$ 113,333	\$ -	\$ 304,764	37.19%
2013	110,318	110,318	-	351,290	31.40%
2014	93,844	93,844	-	346,452	27.09%
2015	99,307	99,307	-	374,294	26.53%
2016	87,357	87,357	-	310,539	28.13%
2017	82,995	82,995	-	400,390	20.73%
2018	100,441	100,441	-	441,708	22.74%
2019	114,083	114,083	-	395,459	28.85%
2020	108,391	108,391	-	361,786	29.96%
2021	95,806	95,806	-		

\* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

WAYNESBURG 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, 2021
Actuarial cost method	Entry age normal
Amortization method	General Rule Act 205 Section 201(a); Corridor limits +/-20% of fair market value
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.0%
Cost-of-living adjustments	2.25%

WAYNESBURG BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Greg Leathers**  
Mayor

**Mr. Billy Harding**  
Council President

**Mr. Michael N. Simms**  
Borough Manager

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