

COMPLIANCE AUDIT

West View Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

February 2023



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
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, 2018 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 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 total 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 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 benefits 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, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 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.

West View Borough contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2018, and audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, for the years ended December 31, 2019, 2020 and 2021, 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. 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.

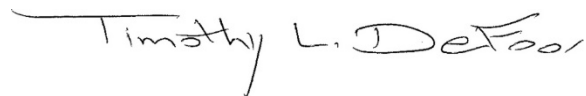
The results of our procedures indicated that, in all significant respects, the West View Borough Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Recommendation – Improper Vested Pension Benefit Calculation
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 3 – Incorrect Pension Benefit Calculations

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

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.



Timothy L. DeFoor
Auditor General
January 19, 2023

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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 West View Borough Non-Uniformed 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.

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 two and one-half (2.5) percent of compensation to the plan. As of December 31, 2021, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and 11 retirees receiving pension benefits.

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

West View Borough has not complied with the prior recommendation concerning the following:

- Improper Vested Pension Benefit Calculation

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Recommendation – Improper Vested Pension Benefit Calculation

Condition: As disclosed in the two most recent audit reports, borough officials included a \$35,000 severance payment in a vested pension calculation for a plan member who terminated employment effective August 2011. The inclusion of the severance payment was not authorized by the plan’s governing document. During the current audit period, payment of the vested member pension benefit commenced on December 16, 2021, without being recalculated to exclude the severance payment as previously recommended.

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 expenses or payments made to an Employee welfare or benefit plan on behalf of the Employee. . . [Emphasis added]

Cause: Borough officials believed that their methodology for calculating the pension benefit was consistent with the governing plan document and engaged their solicitor to opine upon the propriety of the pension calculation, as was previously recommended. However, the borough did not recalculate the pension benefit to exclude the severance payment as was also recommended by the department in the prior report.

Effect: Due to the inclusion of the severance payment, the plan is paying pension benefits to a retiree in excess, approximately \$368 per month, of those authorized by the plan’s governing document.

Recommendation: We again recommend that borough officials recalculate the pension benefit to exclude the severance payment and adjust the pension benefit, accordingly, in accordance with the pension plan’s governing document.

Management's Response: The borough’s response, as provided by the borough’s solicitor, is included in its entirety as follows:

This correspondence is at your request concerning the proposed repeat finding as an improper vested pension benefit calculation in that Borough officials included a \$35,000 payment in a vested pension calculation for a non-uniform plan member that terminated employment in August of 2011.

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

I have had the opportunity to review Official Borough Ordinance No. 1441, which is an amendment to the Borough of West View Municipal Pension Plan, as amended and restated effective January 1, 2002. I reviewed this Ordinance in the context of said proposed repeat finding, and also in discussions with the Borough's actuary.

Both this office, as Solicitor to the Borough, and the pension plan's actuary are in agreement that the Ordinance is vague at best in reference to a description and definition of compensation that is eligible for said pension calculation. Specifically, Section 1.12 defines Compensation as "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 Employee welfare or benefit plan on behalf of the Employee." Under these circumstances, it was totally appropriate for the Borough to utilize said severance payment as part of the calculation in 2011 for the individuals [*sic*] pension benefit calculation.

Auditor's Conclusion: We respectfully disagree with the position taken by the borough relative to this issue. As we concluded in the prior audit, while we acknowledge the borough's position and agree that the definition of *Compensation* is vague at best, it was the position of the department that the inclusion of a lump sum severance payment in the final average monthly salary used to determine an individual participant's monthly pension benefit provides for a pension benefit that is greater than expected and one that was not factored into the long-term costs of the pension plan and therefore, should be excluded from the final average salary for pension purposes.

Since the excess pension benefit is now being paid to the retiree, to the extent that the borough has already obligated itself to pay benefits to the retiree in excess of those authorized, 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, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the borough's future state aid allocations and submit this information to the department. If it is determined the unauthorized benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would be required to contact the department to verify the overpayment of state aid received and the borough would be required to reimburse the overpayment to the Commonwealth. Compliance will be subject to verification in the next audit of the pension plan.

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$22,562 on the Certification Form AG 385 filed in 2022. Plan officials did not include a member who was on disability but still an active participant of the plan and receiving full-service credit and all other benefits extended to full-time employees of the borough during 2021. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: The borough lacked adequate internal control procedures, such as having another individual review the data certified, to timely identify the omission prior to submission.

Effect: The data submitted on this certification form 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 allocation was based on unit value, the borough received an underpayment of state aid as identified below:

<u>Units</u> <u>Understated</u>	<u>Unit</u> <u>Value</u>	<u>State Aid</u> <u>Underpayment</u>
1	\$ 5,180	\$ 5,180

Although the borough will be reimbursed for the underpayment of state aid due to the certification error, the full amount of the 2022 state aid allocation was not available to be deposited timely and therefore was not available to fund benefits, pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to assist them in accurately reporting the required pension data.

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

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

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Incorrect Pension Benefit Calculations

Condition: Two members of the pension plan, who retired from employment with the borough on September 20, 2020, and June 10, 2022, respectively, had their pension benefits incorrectly determined according to the plan’s governing document. Municipal officials did not use the total compensation as outlined in the plan document (i.e., the last 36 months earnings prior to termination) to determine the pension benefit for one of the members. For the other individual, municipal officials used inaccurate payroll figures earned during the last 36 months’ employment in the benefit determination.

Criteria: Section 4.02 of Ordinance No. 1406 states, in part:

Normal Retirement Benefit - Each participant who shall become entitled to a benefit... shall be entitled to receive a monthly retirement benefit in an amount equal to one and six tenths percent (1.6%) of the Participant’s Final Monthly Average Compensation.

Section 1.20 of Ordinance No. 1441 states, in part:

Final Monthly Average Compensation shall mean the ***greater of*** the highest three (3) calendar years of total Compensation from 1990 through the last year of Employment prior to retirement, divided by thirty-six (36), ***or*** the Compensation earned by the Participant ...during the last thirty-six (36) months immediately preceding termination of Employment, divided by thirty-six (36) . . .

Cause: The borough lacked adequate internal control procedures to ensure that pension benefits were properly determined in accordance with provisions of the plan’s governing document.

Effect: The plan is paying a monthly pension benefit to both retirees in an amount less than entitled to and authorized by the plan document.

Recommendation: We recommend that municipal officials recompute and adjust the pension benefits for these retirees, in accordance with the plan’s governing document and reimburse the retirees for the total underpayments, retroactive to their respective dates of retirement.

We also recommend that in the future, plan officials establish adequate internal control procedures, to ensure subsequent pension benefits are determined in accordance with provisions contained in the plan’s governing document.

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

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

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, 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	\$ 3,111,786	\$ 3,209,301	\$ 97,515	97.0%
01-01-19	3,429,060	3,606,302	177,242	95.1%
01-01-21	4,043,335	4,190,626	147,291	96.5%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 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
(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	\$ 110,256	\$ 110,256	\$ -	\$ 526,249	21.0%
2013	101,293	104,623	(3,330)	-	
2014	83,463	83,463	-	587,131	14.2%
2015	86,062	86,062	-	618,081	13.9%
2016	53,909	53,909	-	634,875	8.5%
2017	55,164	55,931	(767)	646,601	8.7%
2018	61,040	61,040	-	602,858	10.1%
2019	72,911	72,911	-	682,138	10.7%
2020	107,997	108,378	(381)	655,280	16.5%
2021	116,053	116,119	(66)	703,106	16.5%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

** The excess contributions in 2020 and 2021 represented interest on the late payment of the 2019 municipal obligation.

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, 2021
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	6.5%
Projected salary increases *	4.0%

* Includes inflation at 2.5%

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

The Honorable John R. Henry
Mayor

Mr. William F. Aguglia
Council President

Mr. Bruce A. Fromlak
Borough Manager

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