

COMPLIANCE AUDIT

Wilkinsburg Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

December 2019



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
Wilkinsburg Borough
Allegheny County
Wilkinsburg, PA 15221

We have conducted a compliance audit of the Wilkinsburg Borough Non-Uniformed Pension Plan for the period January 1, 2017 to December 31, 2018. 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 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 the plan member who retired 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2016 and 2018, 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.

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 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 Wilkinsburg Borough Non-Uniformed 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 Wilkinsburg 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.

November 26, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish 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 Wilkesburg Borough Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Wilkesburg Borough Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2721, 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, 1958. Active members are required to contribute \$10.40 per week to the plan. As of December 31, 2018, the plan had 35 active members, 3 terminated members eligible for vested benefits in the future, and 19 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 65, or age 60 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 10 years of service.

Retirement Benefit:

Benefit equals \$46 per month times years of service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	Modified cash refund. \$10,000 death benefit for those retiring on or after January 1, 1991.

Disability Benefit:

Service Related	Accrued benefit payable first of the month following disability, one year of service eligibility.
Non-Service Related	Same as service related disability, one year service requirement, qualification of social security disability benefits.

WILKINSBURG BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 reflects 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 YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 48,279	\$ 53,793	\$ 51,612	\$ 52,446	\$ 50,199
Interest	241,680	239,427	253,692	246,290	244,601
Difference between expected and actual experience	(51,779)	80,935	(36,257)	(129,734)	(33,490)
Changes of assumptions	-	65,844	-	66,587	-
Benefit payments, including refunds of member contributions	(219,655)	(245,833)	(261,678)	(257,232)	(254,480)
Other changes	-	(604)	7,063	(1,368)	1,670
Net Change in Total Pension Liability	18,525	193,562	14,432	(23,011)	8,500
Total Pension Liability – Beginning	3,139,976	3,158,501	3,352,063	3,366,495	3,343,484
Total Pension Liability – Ending (a)	<u>\$ 3,158,501</u>	<u>\$ 3,352,063</u>	<u>\$ 3,366,495</u>	<u>\$ 3,343,484</u>	<u>\$ 3,351,984</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 131,084	\$ 153,739	\$ 144,078	\$ 134,817	\$ 142,218
Contributions – member	22,285	17,264	16,286	17,514	19,219
Net investment income	167,886	(23,941)	164,703	366,150	(155,604)
Benefit payments, including refunds of member contributions	(215,176)	(245,833)	(254,595)	(257,232)	(254,480)
Administrative expense	(2,975)	(7,075)	(12,165)	(8,225)	(17,196)
Other	43	(4,285)	-	(1,368)	1,670
Net Change in Plan Fiduciary Net Position	103,147	(110,131)	58,307	251,656	(264,173)
Plan Fiduciary Net Position – Beginning	2,572,247	2,675,394	2,565,263	2,623,570	2,875,226
Plan Fiduciary Net Position – Ending (b)	<u>\$ 2,675,394</u>	<u>\$ 2,565,263</u>	<u>\$ 2,623,570</u>	<u>\$ 2,875,226</u>	<u>\$ 2,611,053</u>
Net Pension Liability – Ending (a-b)	<u>\$ 483,107</u>	<u>\$ 786,800</u>	<u>\$ 742,925</u>	<u>\$ 468,258</u>	<u>\$ 740,931</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.70%	76.53%	77.93%	85.99%	77.9%
Estimated Covered Employee Payroll	\$ 1,428,121	\$ 1,223,117	\$ 1,241,603	\$ 1,344,418	\$ 1,384,751
Net Pension Liability as a Percentage of Covered Employee Payroll	33.83%	64.33%	59.84%	34.83%	53.51%

Note: The 2014 and 2016 Benefit payment amounts in the Total Pension Liability section includes refunds paid to members in 2015 and 2017 which are excluded from the Benefits payments amount in the Plan Fiduciary Net Position section.

WILKINSBURG 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 borough as of December 31, 2015 and 2016, calculated using the discount rate of 7.75%, 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 (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/15	\$ 1,074,054	\$ 786,800	\$ 537,591
Net Pension Liability – 12/31/16	\$ 1,027,578	\$ 742,925	\$ 495,391

In addition, the following presents the net pension liability of the borough as of December 31, 2017 and 2018, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/17	\$ 758,907	\$ 468,258	\$ 216,574
Net Pension Liability – 12/31/18	\$ 1,029,570	\$ 740,931	\$ 491,068

WILKINSBURG 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>
2014	\$ 131,084	\$ 131,084	\$ -	\$1,428,121	9.18%
2015	153,739	153,739	-	1,223,117	12.57%
2016	144,078	144,078	-	1,241,603	11.60%
2017	134,817	134,817	-	1,344,418	10.03%
2018	142,218	142,218	-	1,384,751	10.27%

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.56%)
2017	15.02
2016	7.44%
2015	(0.93%)
2014	6.85%

WILKINSBURG 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, 2013, 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)
01-01-13	\$ 2,507,117	\$ 3,091,471	\$ 584,354	81.1%
01-01-15	2,725,338	3,312,272	586,934	82.3%
01-01-17	2,904,289	3,311,589	407,300	87.7%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing method described in Section 210 of Act 205, as amended. 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.

WILKINSBURG BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
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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.

WILKINSBURG 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	5 years
Asset valuation method	PMRS asset smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	Not disclosed

WILKINSBURG BOROUGH NON-UNIFORMED PENSION PLAN
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