

# COMPLIANCE AUDIT

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## Wilkesburg Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

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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 Police 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit 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 the plan member who retired during the current audit period represent payments to all (and only) those entitled to receive them and was 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 also 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 in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- 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.
- We determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

Wilkesburg 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 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 objectives.

The results of our procedures 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.

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 Wilkinsburg Borough Police 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 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. § 767 et seq.

The Wilkinsburg Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 02722, 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 January 1, 1958. Active members are required to contribute 6.5 percent of their compensation to the plan. As of December 31, 2018, the plan had 23 active members, 4 terminated members eligible for vested benefits in the future, and 32 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 55 and 25 years of service.
Early Retirement	20 years of service, if hired before January 1, 2004.
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus \$100 per month upon completion of 26 years of service for those hired prior to January 1, 2004. Benefit equals 50% of final 60 months average salary for those hired on or after January 1, 2004.

### 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 eligible to receive for life pursuant to Act 30.

### Service Related Disability Benefit:

Benefit equals 50% of the member's salary less 100% of any Social Security disability benefits provided for the same injury.

WILKINSBURG BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Wilkinsburg Borough Police has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current audit period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

Status Of Prior Audit Recommendation

- Pension Benefit Not Authorized By Act 600

The audit report for the period January 1, 2003 to December 31, 2004, contained a finding that reported that the plan's governing document provided for employees to retire after twenty years of service with no age requirement. On July 11, 2012, the borough adopted Ordinance No. 2894, which amended the definition of normal retirement age to comply with Act 600. However, excess benefits are still being paid to existing retirees. Since the borough received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to the existing retirees on the plan's future state aid allocations.



WILKINSBURG BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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	\$ 250,870	\$ 251,826	\$ 259,674	\$ 257,473	\$ 264,067
Interest	972,437	1,000,645	1,042,425	1,048,163	1,052,751
Difference between expected and actual experience	24,691	(213,513)	54,263	(758,904)	7,710
Changes of assumptions	-	293,517	-	314,963	-
Benefit payments, including refunds of member contributions *	(769,528)	(775,807)	(832,914)	(825,691)	(788,538)
Other Changes	-	(5,182)	2,251	(12,138)	14,116
Net Change in Total Pension Liability	478,470	551,486	525,699	23,866	550,106
Total Pension Liability – Beginning	12,572,287	13,050,757	13,602,243	14,127,942	14,151,808
Total Pension Liability – Ending (a)	<u>\$ 13,050,757</u>	<u>\$ 13,602,243</u>	<u>\$ 14,127,942</u>	<u>\$ 14,151,808</u>	<u>\$ 14,701,914</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 220,806	\$ 318,088	\$ 292,583	\$ 312,828	\$ 310,661
Contributions – member	118,139	114,626	124,562	117,739	127,069
Net investment income	701,510	(94,574)	685,209	1,563,368	(631,852)
Benefit payments, including refunds of member contributions *	(784,004)	(775,807)	(823,810)	(825,691)	(788,538)
Administrative expense	(3,682)	(6,275)	(36,308)	(62,390)	(59,151)
Other	520	(6,634)	-	(12,138)	14,116
Net Change in Plan Fiduciary Net Position	253,289	(450,576)	242,236	1,093,716	(1,027,695)
Plan Fiduciary Net Position – Beginning	10,895,425	11,148,714	10,698,138	10,940,374	12,034,090
Plan Fiduciary Net Position – Ending (b)	<u>\$ 11,148,714</u>	<u>\$ 10,698,138</u>	<u>\$ 10,940,374</u>	<u>\$ 12,034,090</u>	<u>\$ 11,006,395</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,902,043</u>	<u>\$ 2,904,105</u>	<u>\$ 3,187,568</u>	<u>\$ 2,117,718</u>	<u>\$ 3,695,519</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.43%	78.65%	77.44%	85.04%	74.86%
Estimated Covered Employee Payroll	\$ 1,748,848	\$ 1,842,793	\$ 1,954,180	\$ 1,880,023	\$ 1,923,813
Net Pension Liability as a Percentage of Covered Employee Payroll	108.76%	157.59%	163.12%	112.64%	192.09%

\* The 2014 Benefit payments amount in the Plan Fiduciary Net Position section includes refunds to members that are excluded from Benefit payments amount in the Total Pension Liability section. The 2016 Benefit payments amount in the Total Pension Liability section includes refunds paid to members in 2017 who terminated in 2016 and excess benefits paid in 2016 to a plan survivor and being reimbursed to the pension plan that are excluded from the Benefit payments amount in the Plan Fiduciary Net Position section.

WILKINSBURG BOROUGH 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 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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net Pension Liability – 12/31/15	\$ 4,547,568	\$ 2,904,105	\$ 1,519,291
Net Pension Liability – 12/31/16	\$ 4,881,736	\$ 3,187,568	\$ 1,758,234

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:

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability – 12/31/17	\$ 3,788,055	\$ 2,117,718	\$ 711,051
Net Pension Liability – 12/31/18	\$ 5,409,896	\$ 3,695,519	\$ 2,250,679

WILKINSBURG 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>
2014	\$ 220,806	\$ 220,806	\$ -	\$1,748,848	12.63%
2015	\$ 318,088	\$ 318,088	\$ -	\$1,842,793	17.26%
2016	\$ 292,583	\$ 292,583	\$ -	\$1,954,180	14.97%
2017	\$ 312,828	\$ 312,828	\$ -	\$1,880,023	16.64%
2018	\$ 310,661	\$ 310,661	\$ -	\$1,923,813	16.15%

SCHEDULE OF INVESTMENT RETURNS

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

2018	14.69%
2017	14.69%
2016	7.23%
2015	(1.35%)
2014	6.64%

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. 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	\$ 10,994,114	\$ 12,141,317	\$ 1,147,203	90.6%
01-01-15	11,627,335	\$ 13,136,301	1,508,966	88.5%
01-01-17	12,430,790	13,682,675	1,251,885	90.9%

Note: The market value of the plan's asset 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 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.

WILKINSBURG 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar, open
Remaining amortization period	11 years
Asset valuation method	PMRS asset smoothing
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50%

WILKINSBURG BOROUGH POLICE PENSION PLAN  
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