



**WEST HOMESTEAD BOROUGH POLICE  
PENSION PLAN**

**ALLEGHENY COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2010 TO DECEMBER 31, 2012**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
West Homestead Borough  
Allegheny County  
West Homestead, PA 15120

We have conducted a compliance audit of the West Homestead Borough Police Pension Plan for the period January 1, 2010 to December 31, 2012. 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 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the unallocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.

West Homestead Borough contracted with an independent certified public accounting firm for annual 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, 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.

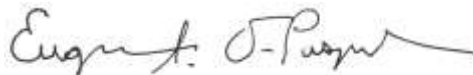
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West Homestead Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 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 tests indicated that, in all significant respects, the West Homestead 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 In Excess Of Act 600 Resulting In The Receipt Of Excess State Aid

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 Homestead 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, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

January 31, 2014

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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 West Homestead 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The West Homestead Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 599, 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 October 13, 1958. Active members are required to contribute 2.5 percent of annual salary to the plan. As of December 31, 2012, the plan had 6 active members, no terminated members eligible for vested benefits in the future, 4 retirees receiving pension benefits from the plan and 2 retirees receiving benefits funded through annuities purchased with plan assets.

## **BACKGROUND – (Continued)**

As of December 31, 2012, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement    Age 50 and 25 years of service.

Early Retirement     None

Vesting                100% after 12 years of service.

### Retirement Benefit:

50% of average monthly average compensation, plus a service increment to participants who retire after the completion of 26 years of service equal to \$100 per month. Compensation is monthly salary plus longevity. Compensation excludes overtime, back pay and other compensation.

### Survivor Benefit:

Pre-Retirement:    Refund of member contributions with interest.

Post-Retirement:   50% of the amount that the participant was receiving or was eligible to receive.

### Service Related Disability Benefit:

No less than 50% of the member's wages at the time of disablement offset by Social Security disability benefit.

WEST HOMESTEAD BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

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

- Pension Benefits In Excess Of Act 600 Resulting In The Receipt Of Excess State Aid

As noted in the prior audit report, the borough amended the plan's governing document and collective bargaining agreement to provide pension benefits that comply with Act 600. In addition, in 2011, the borough reduced the pension benefits of the 2 effected retirees to be in compliance with Act 600 provisions. Furthermore, during the current audit period, the borough reimbursed \$36,881 to the Commonwealth for the excess state aid received in 2007, 2009 and 2010 attributable to the excess benefits provided.

The Department continued to monitor the impact of the excess benefits on the borough's state aid allocations and, during the current audit period, it was determined that the borough received excess state aid in 2011 attributable to the excess benefits provided, as further discussed in the Finding and Recommendation section of this report. The 2011 state aid allocation was based, in part on the plan's Act 205 actuarial valuation report with a valuation date of January 1, 2009, which reflected the excess benefits then provided by the plan.



WEST HOMESTEAD BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 600 Resulting In The Receipt Of Excess State Aid**

Condition: As noted in the prior audit report, the borough received excess state aid in the years 2007, 2009 and 2010 in the amounts of \$6,090, \$4,900 and \$23,757, respectively, totaling \$34,747, attributable to the provision of pension benefits in excess of Act 600 provisions. During the current audit period, the borough returned \$36,881 to the Commonwealth for the excess state received, including interest, and reduced the pension benefits of the 2 effected retirees to be in compliance with Act 600 provisions.

The Department continued to monitor the impact of the excess benefits on the borough's state aid allocations and, during the current audit period, it was determined that the borough received excess state aid totaling \$23,757 in 2011 attributable to the provision of pension benefits in excess of Act 600 provisions.

Criteria: To the extent that the borough was not in compliance with Act 600 and/or was contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, such benefits were deemed ineligible for funding with state pension aid.

Cause: The excess pension benefits were reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. 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 with a valuation date of January 1, 2009, resulted in the allocation of excess state aid to the borough in 2011 attributable to excess benefits provided.

Effect: The plan's actuary prepared Supplemental Actuarial Information Form AG-MP-1 as of the January 1, 2009, actuarial valuation date, and it was determined that for the year 2011, the impact of the excess benefits on the borough's state aid allocation totaled \$23,757. The excess benefits had no effect on the borough's 2012 or 2013 state aid allocations, nor are they anticipated to effect the borough's future state aid allocations.

Recommendation: We recommend that the total excess state aid received, in the amount of \$23,757, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to 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, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

WEST HOMESTEAD BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Management's Response: This request is based on the suggestion from the finding that the Borough of West Homestead received excess state aid following pension benefits that exceeded Act 600 requirements. The Borough of West Homestead reserves the right to challenge the amount found to be returned to the Commonwealth of Pennsylvania. We ask that information be shared that shows how the amount of \$23,757 was calculated to ensure correct reimbursement from the Borough.

Auditor Conclusion: A detailed calculation of the excess state aid allocation was provided to the borough on February 24, 2014. The Department will monitor the Borough's compliance with the finding recommendation subsequent to the release of the audit report.

WEST HOMESTEAD 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 \$23,757. A condition of this nature may lead to a total withholding of state aid in the future unless the 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, 320 Finance Building, Harrisburg, PA 17120.

WEST HOMESTEAD 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, 2007, 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)]
01-01-07	\$ 1,938,120	\$ 1,230,611	\$ (707,509)	157.5%	\$ 379,156	(186.6%)
01-01-09	1,770,002	1,404,481	(365,521)	126.0%	408,365	(89.5%)
01-01-11	1,805,585	1,148,967	(656,618)	157.1%	359,882	(182.5%)

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses subject to corridor between 80 to 120 percent of the market value of assets. 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.

WEST HOMESTEAD 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. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

WEST HOMESTEAD 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
2007	\$ 24,151	100.0%
2008	None	N/A
2009	4,519	318.5%
2010	None	N/A
2011	22,077	157.2%
2012	None	N/A

WEST HOMESTEAD 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, 2011
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%

WEST HOMESTEAD BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

West Homestead Borough Police Pension Plan  
Allegheny County  
456 West Eighth Avenue  
West Homestead, PA 15120

The Honorable John J. Dindak	Mayor
Mr. Kyle Thauvette	Borough Manager
Mr. William Stasko	Council President
Ms. Donna McMichael	Secretary
Mr. David Harhai	Councilman/Chief Administrative Officer

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).