

# COMPLIANCE AUDIT

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## West Mifflin Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

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August 2021



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 Mifflin Borough  
Allegheny County  
West Mifflin, PA 15122

We have conducted a compliance audit of the West Mifflin Borough Police Pension Plan for the period January 1, 2017 to December 31, 2020. 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and 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 plan members who retired or elected to vest 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 or payable to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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 the terms and methodologies of the issuance of pension obligation bonds by the municipality, and any restrictions, were in compliance with plan provisions and Act 205 through inquiry of plan officials and examination of supporting documentation and through the completion of our fieldwork procedures.

West Mifflin Borough contracted with an independent certified public accounting firm for annual audits of its primary government financial statements for the years ending December 31, 2017, 2018, and 2019, 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.

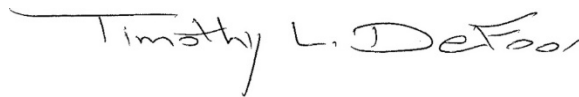
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West Mifflin Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objective.

The results of our procedures indicated that, in all significant respects, the West Mifflin 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 – Failure To Change Disability Pension Benefit To Normal Retirement Benefit In Accordance With Plan Document

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 Mifflin 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

August 3, 2021

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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 Mifflin 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 West Mifflin Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1191, 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 5 percent of compensation to the plan. As of December 31, 2020, the plan had 33 active members, 1 terminated member eligible for vested benefits in the future, and 33 retirees receiving pension benefits from the plan.

WEST MIFFLIN BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Change Disability Pension Benefit To Normal Retirement Benefit In Accordance With Plan Document**

Condition: The municipality failed to follow the plan document that requires a disability benefit to be changed to a normal benefit upon reaching normal retirement age for three retirees who reached their normal retirement age on February 15, 2018, April 16, 2018, and November 19, 2019, respectively.

Criteria: The plan document effective as of January 1, 2014, adopted by Ordinance No. 1191, contains the following provisions:

Section 5.02:

Disability Retirement Benefit - A Participant who shall be entitled to Disability Retirement Benefit under section 5.01 shall receive a benefit in an amount equal to 50% of the Participant's salary at the time the disability was incurred....

Section 5.03:

Payment of Disability Benefits - Disability payments shall be made monthly as of the first day of each month, commencing as of the first date of the month coincident with or immediately following the Participant's Disability Date and continuing until the earliest of the death of the Participant, cessation of Total and Permanent Disability, or attainment of Normal Retirement Age (such a Participant who attains Normal Retirement Age shall thereafter receive a Normal Retirement Benefit pursuant to Section 4.02).

Section 4.02:

Normal Retirement Benefit - Each Participant who shall become entitled to a benefit pursuant to section 4.01 shall receive a benefit paid monthly in an amount equal to fifty percent (50%) of the Participant's Final Monthly Average salary....

Section 4.01:

Normal Retirement - Each Participant shall be entitled to normal retirement benefits after retirement on or after the Participant has attained Normal Retirement Age.

WEST MIFFLIN BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Section 1.21:

“Normal Retirement Age” shall mean the date on which the Participant has completed twenty-five (25) years of Aggregate Service with the Employer and has attained age fifty-three (53).

**Cause:** The borough believes that they are required to continue paying disability benefits to the three disabled retirees due to an arbitration award. For one of the retirees who retired on disability in 2013 and filed a grievance concerning his pension calculation, an arbitration award dated June 13, 2014, in addition to addressing the pension calculation, provided that the retiree’s monthly disability retirement benefit would not change when the retiree converts to a normal retirement benefit. The arbitration award, however, also indicated that this decision was made in accordance with the unique facts presented and would be non-precedential in nature. As such, pursuant to this arbitration award, the borough did not change the retiree’s benefit when the individual reached normal retirement age on November 19, 2019.

In addition, the other two retirees’ original benefit calculations prepared at the time of their respective disability retirements in 2009 and 2012 contained the following statement, “The benefit will be paid until the earliest of death, recovery from disability or reaching normal retirement date. If payments continue until normal retirement date, they will be paid thereafter in the same amount.” As a result, the borough did not change the retirees’ benefits upon reaching their respective normal retirement age on February 15, 2018 and April 16, 2018, accordingly.

**Effect:** Three retirees are receiving pension benefits in excess of those authorized by the plan document. Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value for its pension plans during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

**Recommendation:** We recommend that the borough develop and implement internal control procedures to ensure adherence to the plan document relative to the calculation of disability pension benefits and subsequent reduction of disability pension benefits to a normal retirement benefit upon reaching normal retirement age.



WEST MIFFLIN BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Furthermore, we recommend that borough officials consult with the borough solicitor concerning the appropriate action to take in this matter. To the extent that the borough is contractually obligated to pay benefits to existing retirees in excess of those authorized by the governing document, 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 excess benefits on the borough's future state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

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 MIFFLIN 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, 2015, 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)
01-01-15	\$ 17,457,252	\$ 19,031,359	\$ 1,574,107	91.7%
01-01-17	17,991,360	22,447,692	4,456,332	80.1%
01-01-19	18,342,832	26,212,049	7,869,217	70.0%

Note: The market values of the plan's assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market value of the plan's assets has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

The Actuarial Accrued Liability as of 01-01-19 reflects changes in plan benefit provisions made in 2018 as well as changes in actuarial methods and assumptions for inflation and cost of living adjustments, mortality, and turnover rates.

WEST MIFFLIN 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.

WEST MIFFLIN 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	\$ 293,454	\$ 293,454	\$ -	\$3,286,146	8.93%
2015	285,520	285,520	-	3,292,879	8.67%
2016	213,810	213,810	-	3,430,194	6.23%
2017	447,040	447,040	-	3,450,268	12.96%
2018	427,988	427,988	-	3,279,839	13.05%
2019	1,314,096	1,314,096	-	3,484,289	37.71%
2020	750,094	750,094	-	*	

\* Due to the timing of this audit, covered-employee payroll for 2020 was not provided in this schedule.

WEST MIFFLIN 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
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	7.25%
Projected salary increases	3.0%

WEST MIFFLIN 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 Christopher Kelly**  
Mayor

**Mr. Steven Marone**  
Council President

**Mr. Brian Kamauf**  
Borough Manager

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