

COMPLIANCE AUDIT

West View Borough Non-Uniformed Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

June 2018



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
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, 2015 to December 31, 2017. 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 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. 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) 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.

West View Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015 and 2016, 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. 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 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Improper Vested Pension Benefit Calculation.

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported audit 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.



EUGENE A. DEPASQUALE
Auditor General

June 11, 2018

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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 View 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 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 2.5 percent of compensation to the plan. As of December 31, 2017, the plan had 10 active members, 2 terminated members eligible for vested benefits in the future, and 7 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2017, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 60 and 10 years of service
Early Retirement	20 years of service
Vesting	Member is 100% vested after 10 years of service.

Retirement Benefit:

A monthly benefit payable for life equal to 1.6% of Final Monthly Average Compensation (compensation averaged over the final 36 months of employment), multiplied by credited service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	Refund of contributions plus interest, less any benefits paid, the normal form of benefit payment is a life annuity. At retirement, the participant can select an optional form of payment that is an actuarial equivalent of the normal form.

Service Related Disability Benefit:

If a participant becomes disabled after the completion of 10 years of service and qualifies for Social Security disability benefits, a monthly benefit equal to the accrued benefit at date of disablement will be payable.

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

Noncompliance With Prior Audit Recommendation

West View Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Improper Vested Pension Benefit Calculation

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Improper Vested Pension Benefit Calculation

Condition: As disclosed in our prior audit report, borough officials included a \$35,000 severance payment in a vested pension calculation for a plan member who terminated employment during the prior audit period (August 2011). The inclusion of a severance payment in the pension calculation was not authorized by the plan’s governing document. The vested member is scheduled to begin receiving the vested pension benefit on January 1, 2022.

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 believe that their methodology for calculating the pension benefit is 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 \$35,000 payment as was also recommended.

Effect: Due to the inclusion of the \$35,000 severance payment, the vested pension benefit, which will become payable effective January 1, 2022, is inflated by \$397 per month in excess of what is authorized by the plan’s governing document.

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

Management's Response: The borough’s response was provided by the borough’s solicitor and 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.

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.

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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.

In Section 1.12 of Ordinance No. 1406, *Compensation* fails to specifically include severance pay while specifically excluding extra or additional forms of remuneration including but not necessarily limited to amounts paid as allowance.

The United States Department of Labor refers to severance pay as follows: “Severance pay is often granted to employees upon termination of employment. It is usually based on length of employment for which an employee is eligible upon termination. There is no requirement in the Fair Labor Standards Act for severance pay. Severance pay is a matter of agreement between the employer and an employee.” (*Source: <https://www.dol.gov>*) Moreover, Merriam-Webster further defines *Severance Pay* as “an allowance usually based on length of service that is payable to an employee on termination of employment.” (*Source: <https://www.merriam-webster.com>*)

Including 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. Over time, this practice may lead to decreased plan funding levels and increased costs to the borough and ultimately to the taxpayers of the municipality.

Accordingly, since severance pay is considered an allowance and not factored into the long-term costs of funding the borough’s non-uniformed pension plan, it should be excluded from final average salary for pension calculation purposes.

While we are sympathetic to the borough’s position and agree that the definition of *Compensation* is vague at best, our position and recommendation will remain as stated.

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Page 6 and 7 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 52,140	\$ 50,606
Interest	181,389	194,520
Difference between expected and actual experience	-	43,078
Changes of assumptions	-	56,584
Benefit payments, including refunds of member contributions	(67,112)	(67,112)
Net Change in Total Pension Liability	<u>166,417</u>	<u>277,676</u>
Total Pension Liability – Beginning	<u>2,399,322</u>	<u>2,565,739</u>
Total Pension Liability - Ending (a)	<u>\$ 2,565,739</u>	<u>\$ 2,843,415</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 83,463	\$ 86,062
Contribution – employee	14,678	15,452
Net investment income	191,489	20,520
Benefit payments, including refunds of member contributions	(67,112)	(67,112)
Administrative expense	(1,695)	(21,748)
Net Change in Plan Fiduciary Net Position	<u>220,823</u>	<u>33,174</u>
Plan Fiduciary Net Position – Beginning	<u>2,592,966</u>	<u>2,813,789</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,813,789</u>	<u>\$ 2,846,963</u>
 Net Pension Liability - Ending (a-b)	<u>\$ (248,050)</u>	<u>\$ (3,548)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	109.7%	100.1%
 Estimated Covered Employee Payroll	\$ 587,131	\$ 618,081
 Net Pension Liability as a Percentage of Covered Employee Payroll	(42.2%)	(0.6%)

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 46,456	\$ 50,298
Interest	207,241	226,342
Difference between expected and actual experience	-	(29,107)
Changes of assumptions	-	205,141
Benefit payments, including refunds of member contributions	(63,845)	(53,188)
Net Change in Total Pension Liability	<u>189,852</u>	<u>399,486</u>
Total Pension Liability – Beginning	<u>2,843,415</u>	<u>3,033,267</u>
Total Pension Liability - Ending (a)	<u><u>\$ 3,033,267</u></u>	<u><u>\$ 3,432,753</u></u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 53,909	\$ 55,931
Contribution – employee	15,957	16,165
Net investment income	145,815	423,946
Benefit payments, including refunds of member contributions	(63,845)	(53,188)
Administrative expense	(18,991)	(19,872)
Net Change in Plan Fiduciary Net Position	<u>132,845</u>	<u>422,982</u>
Plan Fiduciary Net Position – Beginning	<u>2,846,963</u>	<u>2,979,808</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 2,979,808</u></u>	<u><u>\$ 3,402,790</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ 53,459</u></u>	<u><u>\$ 29,963</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	98.2%	99.1%
 Estimated Covered Employee Payroll	\$ 634,875	\$ 646,601
 Net Pension Liability as a Percentage of Covered Employee Payroll	8.4%	4.6%

WEST VIEW 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, 2014, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability - 12/31/14	\$ 25,054	\$ (248,050)	\$ (482,806)

The following presents the net pension liability of the borough as of December 31, 2015 and 2016, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability - 12/31/15	\$ 289,528	\$ (3,548)	\$ (255,664)
Net Pension Liability - 12/31/16	\$ 348,397	\$ 53,459	\$ (200,652)

The following presents the net pension liability of the borough as of December 31, 2017, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability - 12/31/17	\$ 380,661	\$ 29,963	\$ (270,017)

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2008	\$ 68,564	\$ 68,564	\$ -	\$ 576,178	11.9%
2009	67,052	69,177	(2,125)	-	-
2010	95,012	95,012	-	599,310	15.9%
2011	100,070	104,192	(4,122)	-	-
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%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

SCHEDULE OF INVESTMENT RETURNS

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

2017	14.32%
2016	5.15%
2015	0.73%
2014	8.07%

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, 2011, 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	\$ 2,169,142	\$ 2,246,998	\$ 77,856	96.5%
01-01-15	2,679,070	2,665,401	(13,669)	100.5%
01-01-17	3,111,786	3,209,301	97,515	97.0%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 has 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
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, closed
Remaining amortization period	5 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases *	4.25%

* Includes inflation at 2.75%

WEST VIEW BOROUGH NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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