

COMPLIANCE AUDIT

West View Borough Police 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 Police 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 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 these amounts to supporting documentation evidencing amounts 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 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.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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 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 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 West View 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 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 7, 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 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 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 View Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1476, as amended, effective January 1, 2014, 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 participant's compensation to the plan; however, member contributions were reduced annually, to 2 percent for the years 2015, 2016 and 2017. As of December 31, 2017, the plan had 10 active members, no terminated members eligible for vested benefits in the future, and 9 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 50 and 25 years of service
Early Retirement	None
Vesting	Member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 26 years.

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 entitled to receive on the day of the member's death.

Service Related Disability Benefit:

For total and permanent disablement, a monthly benefit equal to the greater of the Accrued Benefit at disablement or 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

WEST VIEW BOROUGH POLICE 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 132,616	\$ 150,417
Interest	386,477	401,123
Difference between expected and actual experience	-	(48,685)
Changes of assumptions	-	107,821
Benefit payments, including refunds of member contributions	(207,543)	(225,292)
Net Change in Total Pension Liability	<u>311,550</u>	<u>385,384</u>
Total Pension Liability – Beginning	<u>5,122,302</u>	<u>5,433,852</u>
Total Pension Liability - Ending (a)	<u>\$ 5,433,852</u>	<u>\$ 5,819,236</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 81,957	\$ 97,200
Contribution – employee	9,145	31,029
Net investment income	454,080	49,887
Benefit payments, including refunds of member contributions	(207,543)	(225,292)
Administrative expense	(3,445)	(43,024)
Net Change in Plan Fiduciary Net Position	<u>334,194</u>	<u>(90,200)</u>
Plan Fiduciary Net Position – Beginning *	<u>6,187,039</u>	<u>6,520,139</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,521,233</u>	<u>\$ 6,429,939</u>
Net Pension Liability - Ending (a-b)	<u>\$ (1,087,381)</u>	<u>\$ (610,703)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	120.0%	110.5%
Estimated Covered Employee Payroll	\$ 914,513	\$ 899,973
Net Pension Liability as a Percentage of Covered Employee Payroll	(118.8%)	(67.9%)

* Plan Fiduciary Net Position – Beginning balance (2015) adjusted by (\$1,094) from December 31, 2014.

WEST VIEW BOROUGH POLICE 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	\$ 141,001	\$ 167,725
Interest	423,549	442,770
Difference between expected and actual experience	-	(131,984)
Changes of assumptions	-	265,324
Benefit payments, including refunds of member contributions	<u>(240,550)</u>	<u>(242,123)</u>
Net Change in Total Pension Liability	324,000	501,712
Total Pension Liability – Beginning	<u>5,819,236</u>	<u>6,143,236</u>
Total Pension Liability - Ending (a)	<u>\$ 6,143,236</u>	<u>\$ 6,644,948</u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 80,768	\$ 81,717
Contribution – employee	18,617	19,037
Net investment income	318,091	923,123
Benefit payments, including refunds of member contributions	(240,550)	(242,123)
Administrative expense	<u>(39,306)</u>	<u>(40,672)</u>
Net Change in Plan Fiduciary Net Position	137,620	741,082
Plan Fiduciary Net Position – Beginning *	<u>6,429,939</u>	<u>6,567,559</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,567,559</u>	<u>\$ 7,308,641</u>
 Net Pension Liability - Ending (a-b)	<u>\$ (424,323)</u>	<u>\$ (663,693)</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	106.9%	110.0%
 Estimated Covered Employee Payroll	\$ 888,107	\$ 951,846
 Net Pension Liability as a Percentage of Covered Employee Payroll	(47.8%)	(69.7%)

WEST VIEW 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, 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	\$ (486,226)	\$ (1,087,381)	\$ (1,592,183)

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	\$ 57,762	\$ (610,703)	\$ (1,173,029)
Net Pension Liability - 12/31/16	\$ 266,201	\$ (424,323)	\$ (1,005,319)

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	\$ 154,230	\$ (663,693)	\$ (1,344,454)

WEST VIEW BOROUGH POLICE 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	\$ -	\$ -	\$ -	\$ 755,621	0.0%
2009	-	-	-	-	-
2010	21,208	21,208	-	759,433	2.8%
2011	30,302	34,424	(4,122)	-	-
2012	3,586	3,586	-	776,402	0.5%
2013	8,578	11,908	(3,330)	-	-
2014	81,957	81,957	-	914,513	9.0%
2015	97,200	97,200	-	899,973	10.8%
2016	80,768	80,768	-	888,107	9.1%
2017	80,950	81,717	(767)	951,846	8.6%

* 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	14.29%
2016	5.01%
2015	0.78%
2014	8.05%

WEST VIEW 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	\$ 5,441,370	\$ 4,838,349	\$ (603,021)	112.5%
01-01-15	6,178,137	5,492,988	(685,149)	112.5%
01-01-17	6,872,381	6,276,576	(595,805)	109.5%

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 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 VIEW 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, closed
Remaining amortization period	N/A
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases *	4.75%

* Includes inflation at 2.75%

WEST VIEW BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

The Honorable John R. Henry
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