

COMPLIANCE AUDIT

Scott Township Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

November 2015



Commonwealth of Pennsylvania
Department of the Auditor General
Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Commissioners
Scott Township
Allegheny County
Scott Township, PA 15106

We have conducted a compliance audit of the Scott Township Police Pension Plan for the period January 1, 2012 to December 31, 2014. 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 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 2 plan members who retired 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 benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

Scott Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Scott Township 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 township's internal controls as they relate to the township'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 Scott Township 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 – Noncompliance With Prior Audit Recommendation – Unauthorized Lump-Sum Pension Benefit Granted

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 Scott Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

October 30, 2015



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Unauthorized Lump-Sum Pension Benefit Granted.....	4
Supplementary Information	6
Report Distribution List	11

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 Scott Township 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 Scott Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1499-02, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established October 1, 1963. Active members were required to contribute 2.08 percent in 2012 and 5 percent in the years 2013 and 2014 of their compensation to the plan. As of December 31, 2014, the plan had 20 active members, no terminated members eligible for vested benefits in the future, and 17 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service, or, if hired on or after January 1, 2014, age 55 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	A 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 25 years, up to a maximum of \$500 per month.

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:

Benefit equals 75% of salary but no less than 50% of the member's salary at the time of disablement, offset by Social Security disability benefits received for the same injury.

SCOTT TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Unauthorized Lump-Sum Pension Benefit Granted

SCOTT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Noncompliance With Prior Audit Recommendation – Unauthorized Lump-Sum Pension Benefit Granted

Condition: As disclosed in our prior 2 audit reports, the township granted a monthly pension benefit of \$4,390 to a police officer who retired on January 30, 2008. This benefit was properly determined in accordance with the plan’s governing document and the applicable provisions of Act 600, as amended. However, in addition to the monthly pension benefit granted to the police officer, the township paid the retired officer an additional lump-sum benefit in the amount of \$158,045. The lump-sum benefit was determined by multiplying the retired police officer’s monthly pension benefit by 36, which represents the time period from February 1, 2005, to January 30, 2008. This lump-sum payment was based on an amendment made to the plan’s governing document that granted a reverse Deferred Retirement Option Plan (DROP) benefit to the retired officer.

Ordinance No. 1575-07 at Section 13.18, which amended the plan’s governing document states:

Deferred Retirement Option Plan Window – A Participant who is the Township Chief of Police, who has completed at least forty (40) years of service and who would have been eligible to receive a Normal Retirement Benefit at least three (3) years prior to this window period, may make an election under this section 13.18 to retire and receive their Normal Retirement Benefit under section 4.02, a Service Increment Benefit provided for under section 4.06, as well (as) a reverse Deferred Retirement Option Plan (DROP) benefit pursuant to Article XIII, provided that election to retire and such retirement shall occur prior to January 31, 2008. The reverse DROP benefit shall cover a period not to exceed three (3) years. Such Participant shall receive a monthly retirement benefit commencing on the first of the month coincident with or following termination of Employment in an amount equal to the Participant’s Normal Retirement Benefit, plus Service Increment Benefit in addition to the lump sum reverse DROP benefit.

This Deferred Retirement Option Plan Window under this section 13.18 shall only be available to Participants who are the Chief of Police, who have at least forty (40) years of service and who retire hereunder prior to January 31, 2008. Any Participant who does not retire hereunder prior to January 31, 2008, shall have forever waived any opportunity to do so and shall have their retirement benefits determined under the terms of the Plan without regard to this section 13.18.

SCOTT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: Section 5(c) of Act 600 states, in part:

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

(Emphasis added)

Therefore, there are no provisions in Act 600 which provide for an additional lump-sum payment to be paid to a retiree in addition to a normal retirement benefit.

Cause: The pension benefit was granted pursuant to the provisions of Ordinance No. 1575-07, which amended the plan's governing document to provide a retirement benefit applicable to only one individual.

Effect: The retired police officer received an unauthorized lump-sum payment in the amount of \$158,045.

Furthermore, the unauthorized lump-sum payment reduced the amount of funds available to pay authorized plan expenses or for investment purposes.

Recommendation: We again recommend that the pension plan be reimbursed for the unauthorized lump-sum pension benefit paid to the former police chief.

Management's Response: The township drafted an agreement with the Department which stipulated that, in order to resolve the finding, the township has agreed to reimburse the pension plan \$158,045. Furthermore, in order to accommodate the budget planning process for the township and ensure availability of funds, the payment of the amount shall be made on or before January 31, 2016.

Auditor's Conclusion: The Department appreciates the continued efforts of the township to resolve the outstanding matter. Based on the management response, it appears the township intends to comply with the finding recommendation. Compliance will be evaluated subsequent to the release of the audit report and during our next audit of the plan.

SCOTT TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

The supplementary information contained on Pages 6 and 7 reflect 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	\$ 286,640
Interest	1,357,790
Difference between expected and actual experience	(336,451)
Changes of assumptions	(65,977)
Benefit payments	(851,661)
Net Changes in Total Pension Liability	390,341
Total Pension Liability - Beginning	13,352,993
Total Pension Liability - Ending (a)	\$ 13,743,334
Plan Fiduciary Net Position	
Contributions - employer	\$ 254,003
Contributions - member	106,468
Net investment income	688,876
Benefit payments	(851,661)
Administrative expense	(12,909)
Net Changes in Plan Fiduciary Net Position	184,777
Plan Fiduciary Net Position - Beginning	11,278,499
Plan Fiduciary Net Position - Ending (b)	\$ 11,463,275
Net Pension Liability - Ending (a-b)	\$ 2,280,059
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.41%
Covered Employee Payroll	\$ 2,129,352
Net Pension Liability as a Percentage of Covered Employee Payroll	107.08%

SCOTT TOWNSHIP 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 township, calculated using the discount rate of 7.5%, as well as what the township'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	\$ 3,862,831	\$ 2,280,059	\$ 951,169

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
2010	\$ -	\$ -	\$ -	\$ 1,524,715	N/A
2011	68,094	159,475	(91,381)	1,555,116	10.25%
2012	109,991	121,588	(11,597)	1,757,768	6.92%
2013	224,539	224,539	-	1,934,395	11.61%
2014	254,003	254,003	-	1,786,656	14.22%

SCHEDULE OF INVESTMENT RETURNS
 DECEMBER 31, 2014

Annual Money-Weighted Rate of Return, Net of Investment Expense 11.62%

SCOTT TOWNSHIP 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, 2009, 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)
01-01-09	\$ 11,506,009	\$ 10,744,726	\$ (761,283)	107.1%
01-01-11	11,291,735	11,939,113	647,378	94.6%
01-01-13	11,456,182	13,164,000	1,707,818	87.0%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains/losses subject to a corridor between 70 to 130 percent of the market value of assets. The market values of the plan's assets at 01-01-11 and 01-01-13 are valued using the smoothing method described in Section 210 of Act 205, as amended. 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.

SCOTT TOWNSHIP 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.

SCOTT TOWNSHIP 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	18 years
Asset valuation method	Fair value - smoothing method described in Section 210 of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.75%
Cost-of-living adjustments	2.75%

SCOTT TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Scott Township Police Pension Plan
Allegheny County
301 Lindsay Road
Scott Township, PA 15106

Mr. David A. Jason President, Board of Township Commissioners

Ms. Denise H. Fitzgerald Township Manager

Ms. Sandra A. Novelli Finance Director

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.