



**MUNHALL BOROUGH POLICE
PENSION PLAN**

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2012 TO DECEMBER 31, 2013

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
Munhall Borough
Allegheny County
Munhall, PA 15120

We have conducted a compliance audit of the Munhall Borough Police Pension Plan for the period January 1, 2012 to December 31, 2013. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Munhall 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 Munhall 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 findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not in Compliance With Act 600 Provisions

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Finding No. 3 – Untimely Deposit Of State Aid

Finding No. 1 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 Munhall 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.

July 2, 2014

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

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation - Pension Benefit Not In Compliance With Act 600 Provisions	4
Finding No. 2 – Partial Compliance With Prior Audit Recommendation - Failure To Timely Pay The Minimum Municipal Obligation Of The Plan.....	5
Finding No. 3 – Untimely Deposit Of State Aid.....	7
Supplementary Information	8
Report Distribution List	12

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 Munhall 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 Munhall Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1521, effective January 1, 2007, 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 December 31, 1968. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions were eliminated during the current audit period. As of December 31, 2013, the plan had 21 active members, no terminated members eligible for vested benefits in the future, and 16 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 50 and 25 years of service

Early Retirement 20 years of service

Vesting 100% after 12 years of service

Retirement Benefit:

Benefit is 50% of final 36 months average salary, plus a \$100 per month service increment after 26 years of service.

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:

The greater of the accrued benefit as of the date of disability, 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.

MUNHALL BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Munhall Borough has complied with the prior audit recommendations concerning the following:

- Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

The borough determined and submitted the financial requirements and minimum municipal obligation (MMO) of the pension plan for the year 2013; and

- Failure To Maintain An Adequate Record-Keeping System

The borough has established internal control procedures to ensure that adequate records are maintained for the pension plan.

Partial Compliance With Prior Audit Recommendation

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

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

In 2013, the borough deposited \$274,299 into the police pension plan for the MMO balances due for the years 2010, 2011 and 2012, including interest, as required by Act 205; however, the borough failed to timely pay the 2013 MMO in accordance with Act 205 requirements, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

Munhall Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefit Not In Compliance With Act 600 Provisions

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the collective bargaining agreement (CBA) between the police officers and the borough for the period January 1, 2012 to December 31, 2015, contains a service-related disability benefit provision that conflicts with the pension plan’s governing document and is not in compliance with Act 600. The specific inconsistency is noted below:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Service-related disability benefit	A Participant who retires due to a Total and Permanent Disability shall be eligible for a Disability Retirement Benefit equal to the greater of fifty percent (50%) of the Member’s Salary at the Time the Disability was Incurred or the Accrued Benefit of the Participant determined as of the Disability Date reduced by the amount of any payments for which the Participant shall be eligible under any worker’s compensation or similar laws, or any other disability compensation provided by the Borough. A Participant who received Social Security disability benefits for the same injuries, shall have the Disability Retirement Benefit offset or reduced by the amount of such Social Security disability benefits.	Any full-time officer who retires due to a “Total and Permanent Disability,” shall be deemed to have retired as of his Disability Retirement Date. The disability retirement benefit shall be a monthly amount equal to his normal retirement benefit multiplied by the applicable percentage as follows: After completion of at least two (2) years of full-time service – 100% of normal retirement benefits. Less than two (2) years of full-time service – 50% of normal retirement benefits.	The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document at no less than 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits. In addition, the police pension plan’s benefit structure should be in compliance with Act 600.

Cause: Plan officials were unable to effect compliance with the prior audit recommendation through the collective bargaining process.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to ensure that the collective bargaining agreement and the plan’s governing document contain a consistent service-related disability benefit provision that is in compliance with Act 600 at their earliest opportunity to do so.

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.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation - Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not timely pay the 2013 minimum municipal obligation (MMO) that was due to the police pension plan by December 31, 2013, as required by Act 205. The municipality had an unpaid MMO of \$285,171 for the year 2013. On April 21, 2014, the borough deposited \$313,108 into the police pension plan, comprised of the following:

2013 State Aid	\$ 163,143
2013 Employer Contributions	122,028
Interest	<u>27,937</u>
Total 2013 MMO Payment	<u><u>\$ 313,108</u></u>

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Criteria: Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials did not comply with the Act 205 requirements because internal control procedures were not in effect to ensure the timely payment of the MMO which would have been facilitated by the timely deposit of the borough's 2013 state aid allocation (see Finding No. 3).

Furthermore, there was a turnover in the municipal officials charged with the daily administration of the pension plan.

Effect: Due to the municipality's failure to pay the 2013 MMO by the December 31, 2013, deadline, the municipality was required by Act 205 to pay \$27,937 in interest charges that would not have been required had the MMO been paid timely in accordance with Act 205 requirements.

MUNHALL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that plan officials establish and implement internal control procedures to ensure that future MMOs are paid timely in accordance with Act 205 requirements.

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.

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2013 state aid allocation into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2013 state aid allocation in the amount of \$271,905 on September 23, 2013, but did not deposit the state aid into an eligible pension plan until April 21, 2014. On that date, the borough deposited state aid of \$163,143 into the police pension plan and \$108,762 into the non-uniformed pension plan, and included appropriate interest as required by Act 205.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanisms applicable to the respective pension plans.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the state aid allocation was deposited timely in accordance with Act 205 requirements.

Furthermore, there was a turnover in the municipal officials charged with the daily administration of the pension plan.

Effect: When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay the MMO due to the plan and the risk of misapplication is increased.

Recommendation: We recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

MUNHALL 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, 2009, 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)]
01-01-09	\$ 8,571,940	\$ 6,693,620	\$ (1,878,320)	128.1%	\$ 1,396,824	(134.5%)
01-01-11	7,962,827	7,646,242	(316,585)	104.1%	1,445,033	(21.9%)
01-01-13	8,088,349	8,538,521	450,172	94.7%	1,590,449	28.3%

Note: The market values of the plan's assets at 01-01-09, 01-01-11, and 01-01-13, have 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.

MUNHALL 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.

MUNHALL 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
2008	None	N/A
2009	None	N/A
2010	\$ 76,391	100.0%
2011	81,216	100.0%
2012	102,317	100.0%
2013	285,171	100.0%

MUNHALL 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	15 years (aggregate)
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.5%

* Includes inflation at 3.0%

MUNHALL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
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The Honorable Raymond Bodnar	Mayor
Mr. Daniel Lloyd	Council President
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