COMPLIANCE AUDIT

Municipality of Mount Lebanon Police Pension Plan

Allegheny County, Pennsylvania

For the Period

January 1, 2011 to December 31, 2013

November 2014

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Board of Commissioners
Municipality of Mount Lebanon
Allegheny County
Pittsburgh, PA 15228

We have conducted a compliance audit of the Municipality of Mount Lebanon Police Pension Plan for the period January 1, 2011 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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.

- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.

- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

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

Municipal officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Municipality of Mount Lebanon 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 municipality's internal controls as they relate to the municipality'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 Municipality of Mount Lebanon 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 the Municipality of Mount Lebanon and, where appropriate, their responses have been included in the report. We would like to thank municipality officials for the cooperation extended to us during the conduct of the audit.

October 20, 2014

EUGENE A. DEPASQUALE
Auditor General

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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 Municipality of Mount Lebanon 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 Municipality of Mount Lebanon Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution R-4-09, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its police officers. The plan was established March 24, 1958. Active members are required to contribute 4 percent of total compensation to the plan. As of December 31, 2013, the plan had 43 active members, 2 terminated members eligible for vested benefits in the future and 53 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	Hired before January 11, 2004: 7 years of service. Hired on or after January 11, 2004: 20 years of service.
Vesting	If hired before January 11, 2004: 100% after 7 years of service. If hired on or after January 11, 2004: 100% after 12 years of service.

Retirement Benefit:

If hired before January 11, 2004: A monthly benefit equal to 75% of final average monthly compensation (averaged over the highest 36 months out of the final 10 years of employment) plus a service increment of 1.0% of final average monthly compensation for each year of service in excess of 25 years. Participants receive an additional 1.0% of final average monthly compensation for each year of military service time. If hired on or after January 11, 2004: 50% of gross pay (averaged over the final 36 months of employment) plus a service increment of $100 per month for completion of 26 or more years of service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions, if any, plus interest.
After Retirement Eligibility	If hired on or after January 11, 2004, 50% of the accrued benefit; or if hired before January 11, 2004, 100% of the accrued benefit.

Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, reduced by any Social Security disability benefits received for the same injury of illness.

Non-Service Related Disability Benefit:

None

MUNICIPALITY OF MOUNT LEBANON POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The Municipality of Mount Lebanon has complied with the prior audit recommendation concerning the following:

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Municipal officials reimbursed $12,076 to the Commonwealth for the overpayment of state aid.

Status Of Prior Audit Recommendation

· Pension Benefits Not In Compliance With Act 600 Provisions

As disclosed in prior audit reports, the police pension plan's governing document contains a definition of final average monthly compensation to be used in pension calculations that is not in compliance with Act 600, as amended. The definition in the governing document provides for monthly compensation to be averaged over the highest 36 consecutive months during the last 60 months of employment whereas Act 600 requires monthly compensation to be averaged over not more than the last 60 nor less than the last 36 months of employment (emphasis added). Municipal officials believe their definition of final average monthly compensation is in compliance with Act 600. We note that pension benefit calculations for retirees in recent years have not been impacted by the difference in the definitions. Therefore, the finding will not be repeated in this audit report. However, the Department of the Auditor General will continue to monitor the effect of the noncompliant definition on pension benefit calculations prepared in the future.

MUNICIPALITY OF MOUNT LEBANON 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	$ 28,742,491	$ 34,832,216	$ 6,089,725	82.5%	$ 3,615,879	168.4%
01-01-11	31,775,025	39,289,309	7,514,284	80.9%	3,922,895	191.5%
01-01-13	35,241,819	42,911,674	7,669,855	82.1%	4,318,921	177.6%

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.

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.

MUNICIPALITY OF MOUNT LEBANON 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	$ 909,099	100.0%
2009	987,642	100.0%
2010	1,625,793	100.0%
2011	1,681,115	100.0%
2012	1,673,280	100.0%
2013	1,731,889	100.0%

MUNICIPALITY OF MOUNT LEBANON 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	12 years
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases*	5.5%
Cost-of-living adjustments	2.0%

* Includes inflation at 3.0 %

MUNICIPALITY OF MOUNT LEBANON POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Municipality of Mount Lebanon Police Pension Plan
Allegheny County
710 Washington Road
Pittsburgh, PA 15228

Ms. Kristen Linfante	President, Board of Commissioners
Mr. Stephen M. Feller	Manager
Mr. J. Andrew McCreery, CPA	Finance Director

This report is a matter of public record and is available online at www.auditorgen.state.pa.us. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: news@auditorgen.state.pa.us.