

COMPLIANCE AUDIT

Bell Acres Borough Police Pension Plan Allegheny County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

October 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

The Honorable Mayor and Borough Council
Bell Acres Borough
Allegheny County
Sewickley, PA 15143

We have conducted a compliance audit of the Bell Acres Borough 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- × We also determined whether retirement benefits calculated for the 1 plan member who elected to vest during the current audit period represent payments to all and only those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due and comparing this amount to supporting documentation evidencing the amount determined.
- × 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.

Bell Acres Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Bell Acres 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 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 Bell Acres 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation - Improper Pension Benefit

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 Bell Acres Borough and, where appropriate, their responses have been included in the report.

September 18, 2015



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 Bell Acres 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 Bell Acres Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 237, as amended, 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, 1980. Active members are not required to contribute to the plan. As of December 31, 2014, the plan had 3 active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree 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 55 and 25 years of service. |
| Early Retirement | Eligible with 25 years of service. |
| Vesting | A member is 100% vested after 12 years of service. |

Retirement Benefit:

Benefit equals 50% of final 36 months average monthly compensation.

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 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

BELL ACRES BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Bell Acres 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 Pension Benefit

BELL ACRES BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Noncompliance With Prior Audit Recommendation - Improper Pension Benefit

Condition: As disclosed in our prior 2 audit reports, a member of the police pension plan who terminated employment on December 31, 2007, was awarded an early retirement pension benefit of \$1,511 per month after only 16 years of full-time service. In a settlement agreement with the police officer, the borough retroactively granted him full-time status credit for service from September 9, 1985, so that he could attain the 20 years of service necessary to qualify for early retirement under Act 600's optional early retirement provision. The borough subsequently maintained that the police officer worked sufficient hours during his prior part-time employment to qualify as a full-time employee and was thus eligible for early retirement under Act 600. Although an early retirement benefit provision is authorized by both Act 600 and the plan's governing document, members must have completed at least twenty years of full-time service to be eligible. However, the borough was unable to document that the police officer was a full-time employee and a member of the pension plan prior to January 1, 1991. Accordingly, based upon a calculation prepared by the plan's actuary, the police officer is only entitled to a monthly vested pension benefit of \$1,431 commencing upon his superannuation retirement date of January 1, 2016.

Criteria: Act 600 at Section 5(i) states, in part:

The ordinance or resolution establishing the police pension fund may provide for an early retirement benefit. The early retirement benefit shall be provided to a member of the police force with twenty or more years of service who terminates employment prior to the completion of superannuation retirement age and service requirements....

Furthermore, the plan's governing document, Ordinance No. 237 at Section 1.16 states:

“Early Retirement Age” shall mean the date on which the Participant has completed twenty (20) years of Aggregate Service with the Employer, without regard to age.

BELL ACRES BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Regarding vesting pension benefits, Act 600 at Section 5(h) states, in part:

The ordinance or resolution establishing the police pension fund may provide for a vested benefit provided that such would not impair the actuarial soundness of the pension fund. Under the provisions of such benefit, should a police officer, before completing superannuation retirement age and service requirements but after having completed twelve years of total service, for any reason cease to be employed as a full-time police officer by the municipality or regional police department in whose pension fund he has been a member, he shall be entitled to vest his retirement benefits by filing with the governing body within ninety days of the date he ceases to be a full-time police officer a written notice of his intention to vest. Upon reaching the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer he shall be paid a partial superannuation retirement allowance determined by applying the percentage his years of service bears to the years of service which he would have rendered had he continued to work until his superannuation retirement date to the gross pension, using however the monthly average salary during the appropriate period prior to his termination of employment.

In addition, while Act 600 does not define “full-time” employment, the General Assembly specifically identified in numerous sections of the Act that the pertinent consideration for determination of retirement benefits was for the time spent by an officer as a full-time member of the police pension fund of the municipality. There is no express or implied power in Act 600 for a municipality to grant service credit for part-time service.

Cause: Municipal officials authorized the monthly pension benefit through a written agreement between the former police officer and the borough dated December 10, 2007.

Effect: The member has received \$1,511 per month in unauthorized pension payments since January 1, 2008. The unauthorized pension payments total \$139,017 through August 31, 2015.

BELL ACRES BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value for its pension plans during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We again recommend the borough cease payment of the unauthorized pension benefit until the retired member's superannuation retirement eligibility date of January 1, 2016, at which time the monthly pension benefit should be reduced to the \$1,431 per month previously determined by the plan's actuary. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to the retiree in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the borough's future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Furthermore, we again recommend that future pension benefits be calculated and paid in accordance with provisions contained in Act 600 and the plan's governing document in effect at the time of a member's retirement.

Management Response: Municipal officials disagreed with the finding. The borough manager stated that the borough has no intentions of making any changes to the pension calculation because borough officials believe the original calculation was properly prepared.

Auditor's Conclusion: Based on the criteria cited above, the finding remains as stated. Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

BELL ACRES BOROUGH POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by the finding contained in this audit report may lead to a total withholding of state aid in the future unless the finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this Department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

BELL ACRES 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) |
|--------------------------------|----------------------------------------|------------------------------------------------------------------|----------------------------------------------------------------------------------------|----------------------------|
| 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 | \$ 340,565 | \$ 381,523 | \$ 40,958 | 89.3% |
| 01-01-11 | 385,285 | 472,776 | 87,491 | 81.5% |
| 01-01-13 | 439,671 | 581,110 | 141,439 | 75.7% |

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 3-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.

BELL ACRES 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.

BELL ACRES 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 |
|------------------------|------------------------------|------------------------|
| 2009 | \$ 27,962 | 100.0% |
| 2010 | 29,391 | 100.0% |
| 2011 | 34,937 | 100.0% |
| 2012 | 35,534 | 100.0% |
| 2013 | 44,814 | 100.0% |
| 2014 | 45,248 | 100.0% |

BELL ACRES 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, 2013 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 16 years |
| Asset valuation method | Fair value, 3-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases | 5.0% |
| Cost-of-living adjustments | None assumed |

BELL ACRES BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Bell Acres Borough Police Pension Plan
Allegheny County
1153 Camp Meeting Road
Sewickley, PA 15143

| | |
|--------------------------------|-------------------|
| The Honorable Ronald L. Besong | Mayor |
| Mr. Dennis C. Young, Jr. | Council President |
| Mr. Charles Kulbacki | Borough Manager |

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.