



**MUNICIPALITY OF MURRYSVILLE
COMPREHENSIVE MUNICIPAL
PENSION TRUST FUND**

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

MAY 19, 2010 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

The Honorable Mayor and Municipal Council
Municipality of Murrysville
Westmoreland County
Murrysville, PA 15668

We have conducted a compliance audit of the Municipality of Murrysville Comprehensive Municipal Pension Trust Fund for the period May 19, 2010 to December 31, 2012. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine if the pension trust fund 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. 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 pension trust fund is in compliance with state regulations for distressed municipalities.
- Whether Deferred Retirement Option Plan (DROP) participants' benefit payments are properly determined in accordance with the provisions of the DROP and any other applicable laws and regulations.

The Municipality of Murrysville 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.

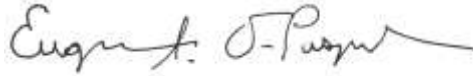
Municipal officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Municipality of Murrysville Comprehensive Municipal Pension Trust Fund is administered in compliance with applicable state laws, regulations, contracts, administrative 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Municipality of Murrysville Comprehensive Municipal Pension Trust Fund 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

December 30, 2013

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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 Murrysville Comprehensive Municipal Pension Trust Fund 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 Murrysville Comprehensive Municipal Pension Trust Fund was established by Ordinance No. 812-10, effective May 19, 2010. The ordinance required the municipality to aggregate the assets of its non-uniformed and police pension plans into a single pension trust fund pursuant to Section 607(b) of Act 205.

The Municipality of Murrysville Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 832-11, as amended. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its non-uniformed employees. As of December 31, 2012, the plan had 39 active members, 14 terminated members eligible for vested benefits in the future and 19 retirees receiving pension benefits.

BACKGROUND – (Continued)

The Municipality of Murrysville Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 691-05, 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. As of December 31, 2012, the plan had 19 active members, no terminated members eligible for vested benefits in the future and 11 retirees receiving pension benefits.

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

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

Condition: The municipality certified 2 ineligible police officers (4 units) on the Certification Form AG 385 filed in 2013. The ineligible members retired effective February 8, 2008, and May 1, 2009, respectively, and entered the municipality’s Deferred Retirement Option Program (DROP).

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension trust fund. Because the municipality’s state aid allocation was based on unit value, the incorrect certification of pension data affected the municipality’s state aid allocation, as identified below:

| Year | Type Of Plan | Units Overstated | Unit Value | State Aid Overpayment |
|------|--------------------|---------------------|---------------|--------------------------|
| 2013 | Police | 4 | \$ 3,884 | \$ 15,536 |

In addition, if the municipality uses the overpayment of state aid to pay the 2013 minimum municipal obligations (MMOs) due to the police and non-uniformed pension plans and the reimbursement to the Commonwealth is made from the pension trust fund, the plans’ MMOs will not be fully paid.

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
FINDING AND RECOMMENDATION

Finding - (Continued)

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

Recommendation: We recommend that the excess state aid, in the amount of \$15,536, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension trust fund, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from the pension trust fund, we recommend that any resulting MMO deficiencies be paid to the pension plans with interest, at a rate earned by the pension plans.

Management's Response: Municipal officials agreed with the finding without exception.

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the municipality in the amount of \$15,565. A condition of this nature may lead to a total withholding of state aid in the future unless the finding is corrected. A check in this amount with interest, at a rate earned by the pension trust fund, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120.

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES 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, 2007, is as follows:

POLICE PENSION PLAN

| | (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)] |
| 01-01-07 | \$ 5,014,185 | \$ 6,113,747 | \$ 1,099,562 | 82.0% | \$ 1,660,647 | 66.2% |
| 01-01-09 | 5,794,313 | 7,339,434 | 1,545,121 | 78.9% | 1,615,852 | 95.6% |
| 01-01-11 | 7,301,526 | 8,960,286 | 1,658,760 | 81.5% | 1,665,856 | 99.6% |

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF FUNDING PROGRESS – (Continued)

NON-UNIFORMED PENSION PLAN

| | (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)] |
| 01-01-07 | \$ 2,963,938 | \$ 3,739,587 | \$ 775,649 | 79.3% | \$ 1,714,873 | 45.2% |
| 01-01-09 | 3,603,131 | 4,894,423 | 1,291,292 | 73.6% | 1,936,590 | 66.7% |
| 01-01-11 | 4,669,420 | 5,946,102 | 1,276,682 | 78.5% | 1,897,657 | 67.3% |

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
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.

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

POLICE PENSION PLAN

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2007 | \$ 336,360 | 100.0% |
| 2008 | 345,816 | 100.0% |
| 2009 | 355,048 | 131.3% |
| 2010 | 447,270 | 125.0% |
| 2011 | 478,524 | 118.8% |
| 2012 | 541,370 | 100.0% |

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULES OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES – (Continued)

NON-UNIFORMED PENSION PLAN

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2007 | \$ 305,915 | 100.0% |
| 2008 | 307,479 | 100.0% |
| 2009 | 313,342 | 122.0% |
| 2010 | 380,513 | 118.0% |
| 2011 | 379,458 | 123.7% |
| 2012 | 357,603 | 100.0% |

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
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:

POLICE PENSION PLAN

| | |
|-------------------------------|--------------------------------|
| Actuarial valuation date | January 1, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 7 years (aggregate) |
| Asset valuation method | Market value, 4-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.5% |
| Projected salary increases * | 4.5% |

* Includes inflation at 3.0%

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

NON-UNIFORMED PENSION PLAN

| | |
|-------------------------------|--------------------------------|
| Actuarial valuation date | January 1, 2011 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar, closed |
| Remaining amortization period | 11 years (aggregate) |
| Asset valuation method | Market value, 4-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.5% |
| Projected salary increases * | 4.5% |

* Includes inflation at 3.0%

MUNICIPALITY OF MURRYSVILLE COMPREHENSIVE
MUNICIPAL PENSION TRUST FUND
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Municipality of Murrysville Comprehensive Municipal Pension Trust Fund
Westmoreland County
4100 Sardis Road
Murrysville, PA 15668

| | |
|-----------------------------|---------------------|
| The Honorable Robert Brooks | Mayor |
| Mr. James Morrison | Chief Administrator |
| Ms. Diane P. Heming | 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.