

**NORTH BELLE VERNON BOROUGH POLICE PENSION PLAN**

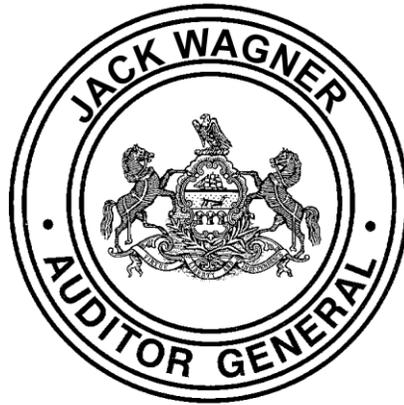
**WESTMORELAND COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**





**NORTH BELLE VERNON BOROUGH POLICE PENSION PLAN**

**WESTMORELAND COUNTY**

**COMPLIANCE AUDIT REPORT**

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### ABBREVIATION

PERC - Public Employee Retirement Commission



## BACKGROUND

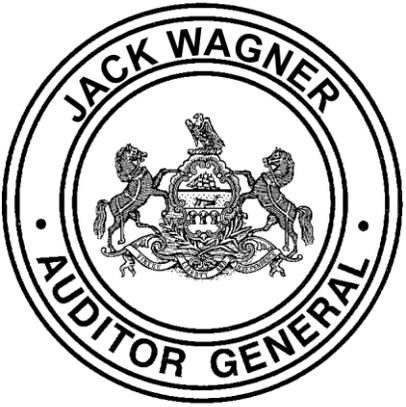
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 North Belle Vernon 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 581 - The Borough Code, Act of February 1, 1966 (P.L. 1656, No. 581), Article XI(f), Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 53 P.S. § 46131 et seq.

The North Belle Vernon Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 539, adopted pursuant to Act 581. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers.



The Honorable Mayor and Borough Council  
North Belle Vernon Borough  
Westmoreland County  
North Belle Vernon, PA 15012

We have conducted a compliance audit of the North Belle Vernon Borough Police Pension Plan for the period January 1, 2009, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 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. North Belle Vernon 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 North Belle Vernon 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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the North Belle Vernon 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 – Incorrect Data  
Supplied To Actuary For Actuarial Valuation Report Preparation

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of North Belle Vernon Borough and, where appropriate, their responses have been included in the report.

May 29, 2012

JACK WAGNER  
Auditor General

NORTH BELLE VERNON BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

North Belle Vernon Borough has complied with the prior audit recommendation concerning the following:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

The borough deposited \$1,480 into the police pension plan to fully pay the 2007 and 2008 minimum municipal obligations due to the plan.

Noncompliance With Prior Audit Recommendation

North Belle Vernon Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

NORTH BELLE VERNON BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied To  
Actuary For Actuarial Valuation Report Preparation

Condition: As disclosed in the prior audit report, actuarial valuation report form 201C, with valuation dates of January 1, 2005 and January 1, 2007, submitted to the Public Employee Retirement Commission (PERC), contained incorrect information. During the current audit period, the January 1, 2011, actuarial valuation report submitted to PERC contained incorrect information. The information was based on data supplied by the municipality to the plan's actuary.

The municipality supplied the following incorrect information to the plan's actuary:

- The actuarial valuation report did not disclose any average administrative expenses on Page 4; however, actual administrative expenses in 2010 were \$2,960;
- The actuarial valuation report did not disclose any actual or estimated members' contributions on Page 4; however, actual 2010 member contributions were \$635;
- The actuarial valuation report failed to include \$194 of plan assets at January 1, 2011;
- The actuarial valuation report disclosed that the plan has no early retirement benefit; however, the plan's governing document provides for an early retirement benefit at age 57 with 20 years of service;
- The actuarial valuation report contained a survivor benefit provision; however, the plan's governing document does not have this provision;
- The actuarial valuation report disclosed that the plan's service-related disability benefit is 100% times base salary averaged over the last 5 years; however, the plan's governing document states that the plan's service-related disability benefit is 50% of salary at the time the disability was incurred;
- The actuarial valuation report disclosed that the plan has a 5% lump-sum COLA benefit paid to all retirees on July 1<sup>st</sup> of each year; however, the plan's governing document states that members who are hired after February 9, 2010, will receive COLA's based on the Consumer Price Index;

NORTH BELLE VERNON BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

- The actuarial valuation report disclosed that the pension plan's member contribution rate is 0; however the plan's governing document states that if there is no offset for the officer for Social Security old age benefits, 5% will be deducted from the gross base pay of each full time police officer from the date of employment to his termination or retirement. If there will be an offset for the officer for Social Security old age benefits, the contribution will be calculated on compensation on which Social Security taxes are payable at a rate calculated by subtracting from 5% the product obtained by multiplying 3% by such offset percentage. On compensation in excess of that on which Social Security taxes are payable, if any, 5%; and
- The actuarial valuation report disclosed that the interest rate credited to refunded member contributions is 0; however, the plan's governing document states the interest rate to be credited is 6%.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the information submitted to the plan's actuary was consistent with the provisions contained in the plan's governing document.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the plan's actuary may result in the municipality receiving an incorrect allocation of state aid.

In addition, the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO); therefore, the incorrect data may also result in an erroneous MMO calculation.

NORTH BELLE VERNON BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that plan officials contact PERC to determine if a revised January 1, 2011, actuarial valuation report may be filed. If a revised report is prepared and accepted by PERC, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 402D Finance Building, Harrisburg, PA 17120.

Furthermore, we again recommend that, in the future, plan officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

Management's Response: Municipal officials agreed with the finding without exception. A revised January 1, 2011, actuarial valuation report has been prepared and has been reviewed by the plan's CAO and is being submitted to PERC.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

NORTH BELLE VERNON 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, 2007, 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)]
01-01-07	\$ 300,872	\$ 311,587	\$ 10,715	96.6%	\$ 55,861	19.2%
01-01-09	281,495	380,374	98,879	74.0%	62,433	158.4%
01-01-11	378,559	451,492	72,933	83.8%	65,089	112.1%

Note: The market value of the plan's assets at 01-01-07 has 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.

NORTH BELLE VERNON 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. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

NORTH BELLE VERNON 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
2006	\$ 19,488	102.1%
2007	20,408	100.0%
2008	21,156	100.0%
2009	23,719	100.0%
2010	28,934	100.0%
2011	44,582	104.5%

NORTH BELLE VERNON 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	12 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

NORTH BELLE VERNON BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

North Belle Vernon Borough Police Pension Plan  
Westmoreland County  
503 Speer Street  
North Belle Vernon, PA 15012

The Honorable Edward J. Lyons, Sr.	Mayor
Mr. Dennis R. Simboli	Council President
Ms. Mary L. Berish	Borough Manager
Ms. Lisa J. Pollock	Chief Administrative Officer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).