

NORTH BRADDOCK BOROUGH POLICE PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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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.

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 Braddock 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.
- 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 North Braddock Borough Police Pension Plan is a single-employer defined benefit pension plan controlled by the provisions of Ordinance No. 1053, effective January 1, 2007, adopted pursuant to Act 581. Prior to the adoption of Ordinance No. 1053, the pension plan was controlled by the provisions of Ordinance No. 792, as amended, adopted pursuant to Act 600. The plan has had no active members since April of 2001.



The Honorable Mayor and Borough Council
North Braddock Borough
Allegheny County
North Braddock, PA 15104

We have conducted a compliance audit of the North Braddock Borough Police Pension Plan for the period January 1, 2008, to December 31, 2010. 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 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. North Braddock Borough contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 Braddock 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 Braddock 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 – Improper Lump-Sum Payments

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

December 21, 2011

JACK WAGNER
Auditor General

NORTH BRADDOCK BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Unauthorized Cost-Of-Living Adjustments

North Braddock Borough Council voted to eliminate the \$100 cost-of-living adjustments (COLAs) for the three police officers receiving disability pension benefits from the plan effective March 15, 2012; however, in order to eliminate the COLAs the municipality gave unauthorized lump-sum payments to the three police officers as further disclosed in the Finding and Recommendation section of this report.

NORTH BRADDOCK BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Improper Lump-Sum Payments

Condition: As disclosed in the prior audit report, the borough granted COLAs to 3 retirees who retired prior to January 1, 2007, that were in excess of Act 600 provisions. The COLAs were granted pursuant to Ordinance No. 1053 which provides for a monthly COLA of \$100 per month for 3 members who are receiving disability pension benefits from the plan. However, these members retired prior to the adoption of Ordinance No. 1053 and, therefore, remain governed by the provisions of Act 600, which limits COLAs to 75 percent of the salary used to determine their retirement benefits. The disability pension benefits were based on 80 percent of the member's final average salary over the last 36 months of employment. Therefore, the retirees are not eligible for a COLA due to the fact their pension benefits already exceed 75 percent of the salary used to determine their retirement benefits.

In March 2011, the 3 retirees, who retired with disability pensions between 1995 and 2001, agreed to receive lump-sum payments of \$9,500 each as a result of a Settlement Agreement entered into as of January 2011 by and between North Braddock Borough and the 3 officers which eliminated the unauthorized COLAs prospectively.

Criteria: Act 600 does not provide for lump-sum payments to be made to retirees in addition to their monthly retirement benefits.

Cause: The borough made the lump-sum payments to the retirees to avoid further litigation regarding the COLAs previously awarded.

Effect: The plan paid \$9,500 to each of the 3 retirees totaling \$28,500 in excess benefits.

Paying excess pension benefits reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses.

Recommendation: We recommend that the municipality reimburse the pension plan for the excess lump-sum pension benefits paid to the 3 retirees.

NORTH BRADDOCK BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials contend that the payments to the 3 retired officers to settle the lawsuit they filed against the pension plan was an obligation of the pension plan and not the borough. The lawsuit claimed that the 3 retirees were entitled to additional post and future benefits worth more than \$300,000. While the municipality did not feel that they were legally correct, in order to protect the plan's assets and to avoid further legal expense, the decision was made to settle those claims rather than to litigate them. This decision was a reasonable and prudent decision, which eliminated a contingent liability and which, factoring the savings in legal expense, cost the plan little or nothing.

Auditor's Conclusion: Act 600 limits benefits to retirees to those in effect during their employment and also subject to the limits established in the act. As a result, based on the criteria cited above, the finding and recommendation remain as stated.

NORTH BRADDOCK 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, 2005, 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)]
01-01-05	\$ 1,855,133	\$ 1,778,927	\$ (76,206)	104.3%	None	N/A
01-01-07	1,618,779	1,599,945	(18,834)	101.2%	None	N/A
01-01-09	1,397,202	1,413,964	16,762	98.8%	None	N/A

Note: The market value of the plan's assets at 01-01-09 has 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.

NORTH BRADDOCK 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 BRADDOCK BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

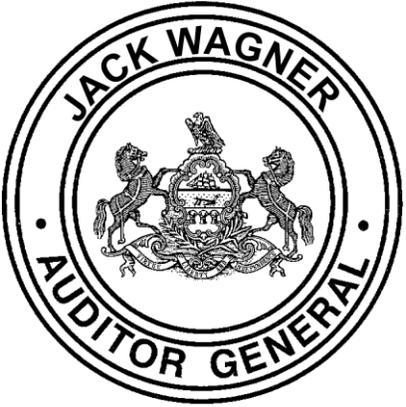
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	None	N/A
2006	None	N/A
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	None	N/A

NORTH BRADDOCK BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	10 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases *	5.0%
* Includes inflation at	3.0%



NORTH BRADDOCK BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

North Braddock Borough Police Pension Plan
Allegheny County
600 Anderson Street
North Braddock, PA 15104

The Honorable Thomas Whyel	Mayor
Ms. Nina R. Burdell Vecchio	Council President
Mr. Douglas P. Marguriet	Borough Manager

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.