

PLUM BOROUGH POLICE PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 Plum 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 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 Plum Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 679-02, 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 Honorable Mayor and Borough Council
Plum Borough
Allegheny County
Plum, PA 15239

We have conducted a compliance audit of the Plum Borough Police Pension Plan for the period January 1, 2005, to December 31, 2007. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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. Plum 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 an internal control structure to provide reasonable assurance that the Plum Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough's compliance with those requirements. 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 Plum 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 findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Ordinance Improperly Amended By Resolution
- Finding No. 4 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

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

June 9, 2008

JACK WAGNER
Auditor General

PLUM BOROUGH POLICE PENSION PLAN STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Plum Borough has complied with the prior audit recommendation concerning the following:

- Unauthorized Disability Pension Benefit

The borough has implemented procedures to insure that disability pension benefits are calculated and paid in accordance with the plan's governing document and Act 600. However, an excess benefit is still being paid to an existing retiree. Since the municipality received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefit provided. The department will continue to monitor the impact of the excess benefit being paid to the existing retiree on the plan's future state aid allocations.

Noncompliance With Prior Audit Recommendations

Plum Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefits Not In Compliance With Act 600 Provisions
- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation
- Ordinance Improperly Amended By Resolution

PLUM BOROUGH POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: As disclosed in our prior audit report, on April 17, 2002, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Municipal officials have not amended the police pension plan's benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Survivor's benefit	A benefit equal to 50 percent of the benefit which the Participant was receiving or entitled to receive at the time of death, payable to the widow or widower of the deceased Participant until death or remarriage. If there is no widow or widower or if the widow or widower dies or remarries, the benefit shall be payable in equal shares to the deceased Participant's child or children who have not attained age 18. Payments to each surviving child shall cease as of such child's death or attainment of age 18.	A survivor benefit, as described under Act 600.	A lifetime survivor's benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. ("Attending college" shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)

PLUM BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	A monthly benefit equal to the Participant's Accrued Benefit determined as of his Disability Date, plus any cost of living adjustment to which the Participant may be entitled. Accrued Benefit shall mean 50% of Final Monthly Average as of the date of determination and multiplied by a fraction (not to exceed 1), the numerator of which shall be the Participant's Aggregate Service determined as of such date and the denominator of which shall be the Aggregate Service which would be credited to the Participant as of his Normal Retirement date if he were to continue to be employed as an Employee until such date.	Not addressed	The benefit must be in conformity with a uniform scale and fixed by the plan's governing document at no less than 50% of the member's salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

PLUM BOROUGH POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Killed in service benefit	Not addressed	Not addressed	Pensions for the families of members killed in service shall be calculated at 100% of the member's salary at the time death.

Criteria: The police pension plan's benefit structure should be in compliance with Act 600, as amended.

Cause: Municipal officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan's benefit structure into compliance with Act 600, as amended, at their earliest opportunity to do so.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Condition: As disclosed in our prior audit report, actuarial valuation report form 201C, with a valuation date of January 1, 2003, submitted to the Public Employee Retirement Commission (PERC), contained incorrect information. During the current audit period, actuarial valuation report form 201C, with valuation dates of January 1, 2005, and January 1, 2007, submitted to the Public Employee Retirement Commission (PERC), also contained incorrect information. The information was based on data supplied by the municipality to the plan's actuary.

PLUM BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

- Ordinance No. 679-02, as amended, states that the survivor benefit shall be equal to 50 percent of the monthly retirement benefit which the Participant was receiving or would have been receiving had he been retired at the time of death, including for this purpose, any service increment benefit to which the Participant was entitled as of his date of death. The survivor benefit shall be payable to the widow or widower of the deceased Participant until the earlier of such widow's or widower's death or remarriage. If there is no widow or widower of the deceased Participant or if the widow or widower dies or remarries, the survivor benefit shall be payable in equal shares to the deceased Participant's child or children who have not attained age 18. Payments to each surviving child shall cease as of such child's death or attainment of age 18.

However, the Act 205 actuarial valuation reports state that the survivor benefit is as required by Act 30. As stated in Finding No. 1 of this report, the borough has not adopted Act 30 benefit provisions; and

- Ordinance No. 679-02, as amended, states that the service-related disability benefit is equal to the Participant's Accrued Benefit determined as of his Disability Date, plus any cost of living adjustment to which the Participant may be entitled. Accrued Benefit shall mean 50% of Final Monthly Average Salary as of the date of determination and multiplied by a fraction (not to exceed 1), the numerator of which shall be the Participant's Aggregate Service which would be credited to the Participant as of his Normal Retirement Date if he were to continue to be employed as an Employee until such date.

However, the Act 205 actuarial valuation reports state that the service-related disability benefit is as required by Act 30. As stated in Finding No. 1 of this report, the borough has not adopted Act 30 benefit provisions.

PLUM BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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: The discrepancies in the data submitted to the plan's actuary occurred because plan officials did not verify that the information was consistent with the plan's governing document.

Effect: Since the municipality received state aid based on unit value during the audit period, it did not receive state aid attributable to the incorrect data provided to the plan's actuary. However, 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 actuary may result in the municipality receiving an incorrect allocation of state aid in the future.

Recommendation: 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.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Ordinance Improperly Amended By Resolution

Condition: As disclosed in our prior audit report, the pension plan's governing document, Ordinance No. 679-02, was amended by Resolution No. 618-04 on September 13, 2004.

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

PLUM BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Municipal officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The restated plan document has not been properly amended.

Recommendation: We again recommend that the borough amend the plan's governing document with a properly executed ordinance.

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

Finding No. 4 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the police pension plan for the years 2005 and 2006, as required by Act 205. The MMO determined by the municipality overstated employee contributions by \$22,763 and \$23,882 for the years 2005 and 2006, respectively. Based upon an estimate prepared by this department and the actual amounts deposited to the plan for the years in question which included an additional contribution of \$21,507 in 2006, the municipality had unpaid MMO balances of \$22,763 and \$2,375 for the years 2005 and 2006, respectively.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

PLUM BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Furthermore, Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: Plan officials did not comply with the Act 205 requirements because the employee contribution rate used in the MMO calculations was not the rate in effect for the years 2005 and 2006.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2005 and 2006 MMO's by the December 31, 2005 and 2006, deadlines, the municipality must add the 2005 and 2006 MMO balances, totaling \$25,138, to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO due to the police pension plan for the years 2005 and 2006, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials properly determine the amount of employee contributions to be used in the MMO calculation.

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

PLUM 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, 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)]
01-01-03	\$ 7,256,750	\$ 7,453,803	\$ 197,053	97.4%	\$ 1,337,469	14.7%
01-01-05	7,228,488	8,420,027	1,191,539	85.8%	1,442,977	82.6%
01-01-07	7,472,498	8,914,284	1,441,786	83.8%	1,641,610	87.8%

Note: The market values of the plan's assets at 01-01-03, 01-01-05 and 01-01-07, have been adjusted to reflect the smoothing of gains and/or losses over a 5-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.

PLUM 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.

PLUM 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
2002	\$ 90,905	133.7%
2003	86,089	154.7%
2004	140,372	100.0%
2005	143,863	84.2%
2006	262,525	99.1%
2007	260,150	100.0%

PLUM 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar closed
Remaining amortization period	13-26 years depending on when base was established
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%
Cost-of-living adjustments	3.0%

PLUM BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Plum Borough Police Pension Plan
Allegheny County
4575 New Texas Road
Plum, PA 15239

The Honorable Richard Hrivnak	Mayor
Mr. Paul Dern	Council President
Mr. Michael A. Thomas	Borough Manager
Ms. Maria Gingery	Secretary

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