



**SCOTT TOWNSHIP POLICE
PENSION PLAN**

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Commissioners
Scott Township
Allegheny County
Scott Township, PA 15106

We have conducted a compliance audit of the Scott Township 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 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. 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 special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- 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.

Scott Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Scott Township 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 township's internal controls as they relate to the township'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 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.

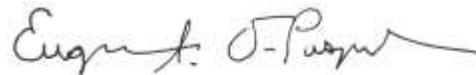
The results of our tests indicated that, in all significant respects, the Scott Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Unauthorized Lump-Sum Pension Benefit Granted

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 Scott Township and, where appropriate, their responses have been included in the report.

April 3, 2013



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 Scott Township 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 Scott Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1499-02, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.

SCOTT TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Scott Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Unauthorized Lump-Sum Pension Benefit Granted

SCOTT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Unauthorized Lump-Sum Pension Benefit Granted

Condition: As disclosed in the prior audit report, the township granted a monthly pension benefit of \$4,390 to a police officer who retired on January 30, 2008. This benefit was properly determined in accordance with the plan’s governing document and the applicable provisions of Act 600, as amended. However, in addition to the monthly pension benefit granted to the police officer, the township paid the retired officer an additional lump-sum benefit in the amount of \$158,045. The lump-sum benefit was determined by multiplying the retired police officer’s monthly pension benefit by 36, which represents the time period from February 1, 2005, to January 30, 2008. This lump-sum payment was based on an amendment made to the plan’s governing document that granted a reverse Deferred Retirement Option Plan (DROP) benefit to the retired officer.

Ordinance No. 1575-07 at Section 13.18, which amended the plan’s governing document states:

Deferred Retirement Option Plan Window – A Participant who is the Township Chief of Police, who has completed at least forty (40) years of service and who would have been eligible to receive a Normal Retirement Benefit at least three (3) years prior to this window period, may make an election under this section 13.18 to retire and receive their Normal Retirement Benefit under section 4.02, a Service Increment Benefit provided for under section 4.06, as well (as) a reverse Deferred Retirement Option Plan (DROP) benefit pursuant to Article XIII, provided that election to retire and such retirement shall occur prior to January 31, 2008. The reverse DROP benefit shall cover a period not to exceed three (3) years. Such Participant shall receive a monthly retirement benefit commencing on the first of the month coincident with or following termination of Employment in an amount equal to the Participant’s Normal Retirement Benefit, plus Service Increment Benefit in addition to the lump sum reverse DROP benefit.

This Deferred Retirement Option Plan Window under this section 13.18 shall only be available to Participants who are the Chief of Police, who have at least forty (40) years of service and who retire hereunder prior to January 31, 2008. Any Participant who does not retire hereunder prior to January 31, 2008, shall have forever waived any opportunity to do so and shall have their retirement benefits determined under the terms of the Plan without regard to this section 13.18.

SCOTT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: Section 5(c) of Act 600 states, in part:

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

(Emphasis added)

Therefore, there are no provisions in Act 600 which provide for an additional lump-sum payment to be paid to a retiree in addition to a normal retirement benefit.

Cause: The pension benefit was granted pursuant to the provisions of Ordinance No. 1575-07, which amended the plan's governing document to provide a retirement benefit applicable to only one individual.

Effect: The retired police officer received an unauthorized lump-sum payment in the amount of \$158,045.

Furthermore, the unauthorized lump-sum payment reduced the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses.

Recommendation: We recommend that the pension plan be reimbursed \$158,045 for the unauthorized lump-sum pension benefit paid to the former police chief.

We also recommend that plan officials establish adequate internal control procedures to ensure that all future pension benefit determinations are made in accordance with Act 600 provisions.

SCOTT TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: In response to the finding included in the prior audit report, the township's solicitor maintained that the township appropriately calculated the pension benefit and the DROP amount. In particular, the former police chief continued to render service to the township through his retirement in January of 2008. The calculation of the lump-sum payment was in accordance with the Ordinance. Moreover, it seems an unusual hardship to require the return of the lump-sum payment or a reduction of the pension benefit. Subsequent to the release of the prior audit, a letter from the township's solicitor dated February 25, 2011, suggested the township would recalculate the amount of the DROP lump-sum paid to the retiree based upon compensation earned from January 31, 2002, to January 30, 2005, and reimburse the pension plan for the difference between the actual lump-sum paid and the recalculated amount. This position was re-affirmed in a subsequent letter from the township's solicitor, which indicated that the plan's actuary has determined that \$27,904 would be due to the plan pursuant to this proposed resolution of the finding. The township requests that this proposal be accepted because the \$102,772 difference in the actuarial present values of future benefit payments based on whether the chief had retired January 30, 2005, versus January 30, 2008, represents less than 1 percent of the actuarial accrued liability of the plan. In contrast, the impact of reimbursing the lump-sum payment previously made would have a drastic financial impact on the township's budget.

Auditor's Conclusion: Based on the Criteria previously cited, it remains the position of the Department that the lump-sum payment made to the retired police chief, while in compliance with Ordinance No. 1575-07 at Section 13.18, is not authorized by Act 600. Therefore, the finding and recommendation remain as stated.

SCOTT TOWNSHIP 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	\$ 11,765,212	\$ 9,707,501	\$ (2,057,711)	121.2%	\$ 1,339,373	(153.6%)
01-01-09	11,506,009	10,744,726	(761,283)	107.1%	1,434,187	(53.1%)
01-01-11	11,291,735	11,939,113	647,378	94.6%	1,470,911	44.0%

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 subject to a corridor between 70 to 130 percent of the market value of assets. The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and or losses over a 4-year averaging period. These methods 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.

SCOTT TOWNSHIP 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. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

SCOTT TOWNSHIP 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	None	N/A
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	None	N/A
2011	\$ 68,094	234.2%

SCOTT TOWNSHIP 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	21 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.75%

* Includes inflation at 3.0%

SCOTT TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Scott Township Police Pension Plan
Allegheny County
301 Lindsay Road
Scott Township, PA 15106

Mr. Thomas M. Castello, Esq.	President, Board of Township Commissioners
Ms. Denise H. Fitzgerald	Township Manager
Ms. Sandra A. Novelli	Finance Director

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