

**AVALON 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 Avalon 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 Avalon Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1293, 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  
Avalon Borough  
Allegheny County  
Pittsburgh, PA 15202

We have conducted a compliance audit of the Avalon 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 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. Avalon 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 Avalon 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 Avalon 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 – Excess Pension Payments
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 3 – Failure To Pay Benefits To Surviving Spouse
- Finding No. 4 – Pension Benefit Not Authorized By The Plan’s Governing Document

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

January 3, 2012

JACK WAGNER  
Auditor General

AVALON BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Avalon Borough has complied with the prior audit recommendations concerning the following:

- Failure To Deposit State Aid Into An Eligible Pension Plan And Untimely Deposit Of State Aid

The borough deposited \$29,848 and \$46,439 into the nonuniformed pension plan for the 2001 and 2002 state aid allocations that were not deposited. In addition, the borough deposited the interest due to the police pension plan for the late deposits of 2003, 2004 and 2005 state aid allocations; and

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

The borough reimbursed \$7,129 to the Commonwealth for the overpayment of state aid received in 2006.

Partial Compliance With Prior Audit Recommendation

Avalon Borough has partially complied with the prior audit recommendation concerning the following:

- Failure To Pay The Minimum Municipal Obligation Of The Plan

Municipal officials deposited \$10,931 and \$35,364 to the police pension plan for the minimum municipal obligations due to the plan for the years 2003, 2005 and 2007, in accordance with Act 205 requirements; however, municipal officials failed to fully pay the minimum municipal obligation due to the plan for 2009 as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

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

- Excess Pension Payments

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Excess Pension Payments

Condition: As disclosed in the prior audit report, the police pension plan paid duplicate monthly pension benefits to 5 retirees in October of 2005.

Criteria: According to the plan’s governing ordinance, retired members are entitled to receive a benefit paid monthly in an amount equal to fifty percent of the member’s final monthly average salary and shall be payable the first day of each month.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The 5 retirees received excess pension benefits totaling \$8,506. In addition, these funds have not been available for investment purposes, for the payment of authorized benefits or to pay administrative expenses of the plan.

Recommendation: We again recommend that municipal officials review this finding with their solicitor to determine the appropriate course of action to ensure the plan is reimbursed for the duplicate pension benefits paid from the plan, plus appropriate interest.

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

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality paid the minimum municipal obligations (MMOs) due the plan for the years 2003, 2005 and 2007, in accordance with Act 205 requirements. However, the municipality did not fully pay the MMO that was due to the police pension plan for the year 2009, as required by Act 205. The municipality had an unpaid 2009 MMO balance of \$1,582.

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.

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

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 failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: 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 2009 MMO by the December 31, 2009, deadline, the municipality must add the 2009 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the balance of the 2009 MMO due to the police pension plan, 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 again recommend that plan officials establish adequate internal control procedures to ensure that the MMO is fully paid in accordance with Act 205 requirements.

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

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Failure To Pay Benefits To Surviving Spouse

Condition: Plan officials failed to provide survivor pension benefits to an eligible surviving spouse of a police officer who retired on August 4, 2003, and later died on April 12, 2009.

Criteria: Section 1(a) (4) of Act 600 states:

The surviving spouse of a member of the police force or a former member of the police force who, prior to April 18, 2002, retired on pension and dies subsequent to retirement or who, after April 16, 2002, retires on pension and dies subsequent to retirement, or if no spouse survives or if he or she survives and subsequently dies, then the child or children under the age of eighteen years or, if attending college, under or attaining the age of twenty-three years, of a member of the police force or a member who retires on pension who dies shall during her lifetime in the case of a surviving spouse or until reaching the age of eighteen years or if attending college, under or attaining the age of twenty-three years, in the case of a child or children, be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death. (Emphasis added)

Furthermore, Section 6.04 of the plan's governing document provides for a survivor benefit provision in accordance with Act 600 provisions.

Cause: Municipal officials felt that since the former police officer was not married at the time of his retirement, his surviving spouse was not entitled to a pension benefit.

Effect: The surviving spouse has not received the \$1,231 monthly benefit to which she is entitled, totaling approximately \$40,623 through the date of this audit report.

Recommendation: We recommend that the surviving spouse be paid the monthly survivor benefit to which she is entitled, in accordance with Act 600 and the plan's governing document. We also recommend that she be paid all retroactive payments due back to the date of her eligibility, including appropriate interest.

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

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Pension Benefit Not Authorized By The Plan’s Governing Document

Condition: Municipal officials provided a \$500 per month service increment benefit to a member who retired on October 1, 2010, with over 33 years of service. While Act 600 does allow for a \$500 monthly service increment for members with at least 30 years of service, the plan’s governing document only provides for a \$100 service increment benefit.

Criteria: Section 4.06 of the pension plan’s governing document, Ordinance No. 1293, states, in part:

Such Service Increment shall be an amount equal to one-hundred dollars (100.00), and shall be paid monthly in addition to the amount of Normal Retirement Benefit calculated pursuant to section 4.02

In addition, the collective bargaining agreement between the borough and its police officers, at Article 10, provides for a service increment of \$100 per month after 26 full years of service

Cause: Municipal officials failed to establish adequate internal control procedures to ensure compliance with the service increment provision contained in the plan’s governing document.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by the plan’s governing document. The retiree is receiving excess benefits of \$400 per month, which totaled approximately \$6,000 from the date of retirement through the date of the audit report.

Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. In addition, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that the pension benefit of any retiree whose benefit was not determined in accordance with the provisions of the plan’s governing document be adjusted prospectively. In addition, any excess benefit payments made from the plan will be deemed ineligible for funding with state aid. Accordingly, the pension plan’s actuary may be required to determine the impact, if any, of the excess benefit payments on the plan’s future state aid allocations and submit this information to the department.

We further recommend that future service increment benefits be determined and paid in accordance with the applicable provisions contained in the plan’s governing document in effect at the time of a plan member’s retirement.

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

AVALON 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	\$ 1,603,855	\$ 1,729,373	\$ 125,518	92.7%	\$ 347,837	36.1%
01-01-07	1,757,998	1,705,002	(52,996)	103.1%	371,140	(14.3%)
01-01-09	1,516,590	1,926,461	409,871	78.7%	424,415	96.6%

Note: The market values of the plan's assets at 01-01-05, 01-01-07 and 01-01-09, have 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.



AVALON 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.

AVALON BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

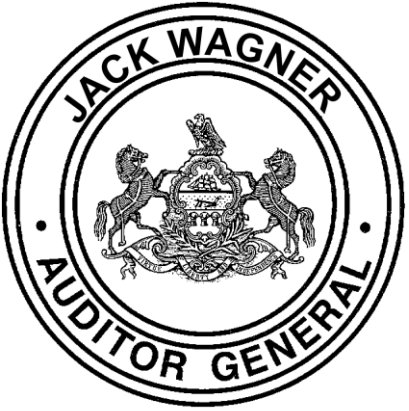
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 49,476	102.0%
2006	50,483	100.0%
2007	74,300	100.0%
2008	71,132	100.0%
2009	54,758	97.1%
2010	58,746	100.0%

AVALON 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	13 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.5%
* Includes inflation at	3.0%



AVALON BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Avalon Borough Police Pension Plan  
Allegheny County  
640 California Avenue  
Pittsburgh, PA 15202

The Honorable David C. Haslett	Mayor
Mr. Edward Repp	Council President
Mr. Harry W. Dilmore	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](http://www.auditorgen.state.pa.us).