

**AVALON BOROUGH POLICE PENSION PLAN**  
**ALLEGHENY COUNTY**  
**COMPLIANCE AUDIT REPORT**  
**FOR THE PERIOD**  
**JANUARY 1, 2005, TO DECEMBER 31, 2007**





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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 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  
Avalon, PA 15202

We have conducted a compliance audit of the Avalon 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. 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 an internal control structure 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. 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 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 -  
Untimely Deposit Of State Aid

Finding No. 2 - Noncompliance With Prior Audit Recommendation - Failure  
To Pay The Minimum Municipal Obligation Of The Plan

Finding No. 3 - Excess Pension Payments

Finding No. 4 - Incorrect Data On Certification Form AG 385 Resulting In  
An Overpayment Of State Aid

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.

August 8, 2008

JACK WAGNER  
Auditor General

AVALON BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR AUDIT FINDINGS

Compliance With Prior Audit Recommendation

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

- Incorrect Pension Calculation

Municipal officials adjusted the pension benefit of a plan member who retired on April 30, 1999.

Noncompliance With Prior Audit Recommendations

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

- Failure To Deposit State Aid Into An Eligible Pension Plan And Untimely Deposits Of State Aid
- Failure To Pay The Minimum Municipal Obligation Of The Plan

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Deposit State Aid Into An Eligible Pension Plan And Untimely Deposits Of State Aid

Condition: During the current audit period, the borough deposited its 2005 state aid allocation into the police pension plan; however, the borough failed to pay interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, for the untimely deposits of the 2003, 2004 and 2005 state aid allocations.

During the current audit period, the borough did not deposit its 2007 state aid allocation into an eligible pension plan within the 30 day grace period allowed by Act 205. The borough received its 2007 state aid allocation, in the amount of \$54,509, on September 28, 2007, but did not deposit it into the police pension plan until December 7, 2007.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

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

Effect: Although the state aid was deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We again recommend that the municipality deposit the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, for the untimely deposits of the 2003, 2004, 2005 and 2007 state aid allocations. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

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

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

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

Condition: During the current audit period, the borough deposited \$50,483 into the police pension plan to pay the 2005 minimum municipal obligation (MMO). However, the borough failed to pay the total interest due to the plan. It was further noted in our prior audit report that the borough did not fully pay the MMO that was due its police pension plan for 2003. The borough had an unpaid 2003 MMO balance in the amount of \$4,791. During the current audit period, the borough deposited \$2,927, leaving a balance due of \$1,864, plus interest.

During the current audit period, the borough did not fully pay the MMO that was due the police pension plan for the year 2007, as required by Act 205. The borough had an MMO due in the amount of \$74,300 for the year 2007. On December 7, 2007, the municipality deposited \$54,509 into the police pension plan, leaving a balance due of \$19,791, plus interest.

Criteria: 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 the plan is funded in accordance with Act 205 requirements.

Effect: The failure to pay the MMOs could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the borough's failure to pay the 2003, 2005 and 2007 MMOs by the December 31, deadline, the borough must add the 2003 and 2007 MMO balances due, plus the 2005 interest due, to the current year's MMO and include interest, as required by Act 205.

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that the municipality pay the MMO balances due to the police pension plan for the years 2003, 2005 and 2007, 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. (Payment of interest to satisfy this finding will also satisfy the interest requirement of Finding No. 1).

Furthermore, we recommend that municipal officials establish adequate internal control procedures to ensure compliance with Act 205 funding requirements.

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

Finding No. 3 – Excess Pension Payments

Condition: The police pension plan paid out a duplicate monthly pension benefit 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: The borough transferred plan assets from one custodian to another in October of 2005 and pension payments were made from each custodian for that month. Plan officials failed to establish adequate internal control procedures to ensure that pension benefit payments were adequately monitored.

Effect: The plan paid pension benefits in excess of those authorized by the plan's governing ordinance. The 5 retirees received excess pension benefits totaling \$8,506.

Recommendation: We recommend that the borough review this finding with its solicitor to determine the appropriate course of action to ensure the plan is reimbursed for the duplicate pension benefits paid.

We also recommend that municipal officials establish and implement adequate internal control procedures to ensure that pension benefits are paid in accordance with the provisions contained in the plan's governing document.

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

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The borough certified 1 ineligible police officer (2 units) and overstated payroll by \$27,272 in 2006 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Since the borough's state aid allocation was based on unit value, the effect of the incorrect certification of pension data on the borough's state aid allocation is identified below:

<u>Units</u> <u>Overstated</u>	<u>Unit</u> <u>Value</u>	<u>State Aid</u> <u>Overpayment</u>
2	\$ 3,089	\$ 6,178

In addition, since the borough used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$6,178, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

AVALON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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



AVALON BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Conditions of repeat findings such as those reported by Finding Nos. 1 and 2 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

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, 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	\$ 1,635,677	\$ 1,614,125	\$ (21,552)	101.3%	\$ 334,534	(6.4%)
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%)

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 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)

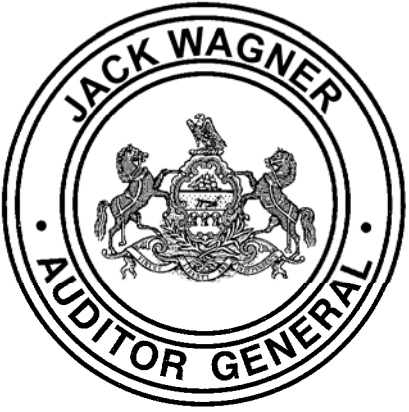
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	None	N/A
2003	\$ 12,127	84.6%
2004	3,508	995.9%
2005	49,476	102.0%
2006	50,483	100.0%
2007	74,300	73.4%

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, 2007
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market 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 Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

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

The Honorable David C. Haslett	Mayor
Mr. Edward R. Klicker	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).