



BELL ACRES BOROUGH 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



CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	2
Status of Prior Finding	5
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Improper Pension Benefit	6
Supplementary Information	9
Report Distribution List	13

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 Bell Acres 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 Bell Acres Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 237, 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.



Commonwealth of Pennsylvania
Department of the Auditor General
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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Bell Acres Borough
Allegheny County
Sewickley, PA 15143

We have conducted a compliance audit of the Bell Acres Borough 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.

Bell Acres Borough contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2009 and 2010, and an audit of its financial statements for the year ended December 31, 2011, 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 Bell Acres 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 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 Bell Acres 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 – Noncompliance With Prior Audit Recommendation – Improper Pension Benefit

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



May 8, 2013

EUGENE A. DEPASQUALE
Auditor General

BELL ACRES BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Improper Pension Benefit

BELL ACRES BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Improper Pension Benefit

Condition: As disclosed in the prior audit report, a member of the police pension plan who terminated employment on December 31, 2007, was awarded an early retirement pension benefit of \$1,511 per month after only 16 years of full-time service. In a settlement agreement with the police officer, the borough retroactively granted him full-time status credit for service from September 9, 1985, so that he could attain the 20 years of service necessary to qualify for early retirement under Act 600’s optional provision. The borough subsequently maintained that the police officer worked sufficient hours during his part-time employment to qualify as a full-time employee and was thus eligible for early retirement under Act 600. Although an early retirement benefit provision is authorized by both Act 600 and the plan’s governing document, members must have completed at least twenty years of full-time service to be eligible. However, the borough was unable to document that the police officer was a full-time employee and a member of the pension plan prior to January 1, 1991. Accordingly, based upon a calculation prepared by the plan’s actuary, the police officer is only entitled to a vested monthly pension benefit of \$1,431 commencing upon his superannuation retirement date of January 1, 2016.

Criteria: Act 600 at Section 5(i) states, in part:

The ordinance or resolution establishing the police pension fund may provide for an early retirement benefit. The early retirement benefit shall be provided to a member of the police force with twenty or more years of service who terminates employment prior to the completion of superannuation retirement age and service requirements....

Furthermore, the plan’s governing document, Ordinance No. 237 at Section 1.16 states:

“Early Retirement Age” shall mean the date on which the Participant has completed twenty (20) years of Aggregate Service with the Employer, without regard to age.

BELL ACRES BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Regarding vesting pension benefits, Act 600 at Section 5(h) states, in part:

The ordinance or resolution establishing the police pension fund may provide for a vested benefit provided that such would not impair the actuarial soundness of the pension fund. Under the provisions of such benefit, should a police officer, before completing superannuation retirement age and service requirements but after having completed twelve years of total service, for any reason cease to be employed as a full-time police officer by the municipality or regional police department in whose pension fund he has been a member, he shall be entitled to vest his retirement benefits by filing with the governing body within ninety days of the date he ceases to be a full-time police officer a written notice of his intention to vest. Upon reaching the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer he shall be paid a partial superannuation retirement allowance determined by applying the percentage his years of service bears to the years of service which he would have rendered had he continued to work until his superannuation retirement date to the gross pension, using however the monthly average salary during the appropriate period prior to his termination of employment.

In addition, while Act 600 does not define “full-time” employment, the General Assembly specifically identified in numerous sections of the Act that the pertinent consideration for determination of retirement benefits was for the time spent by an officer as a full-time member of the police pension fund of the municipality. There is no express or implied power in Act 600 for a municipality to grant service credit for part-time service.

Cause: Municipal officials authorized the monthly pension benefit through a written agreement between the police officer and the borough dated December 10, 2007.

Effect: The member has received \$1,511 per month in unauthorized pension payments since January 1, 2008. The unauthorized pension payments have totaled approximately \$90,660 as of December 31, 2012.

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. Since the borough received state aid based on unit value during the current audit period, it did not receive state aid allocations attributable to the excess pension benefits provided. However, 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.

BELL ACRES BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that municipal officials provide this Department with appropriate documentation to support the member's earlier date of full-time status and participation in the police pension plan. If such documentation is not provided, we recommend the borough cease payment of the unauthorized pension benefit until the retired member's superannuation retirement eligibility date of January 1, 2016.

Furthermore, we again recommend that future pension benefits be calculated and paid in accordance with provisions contained in Act 600 and the plan's governing document in effect at the time of a member's retirement.

Management Response: Municipal officials disagreed with the finding. The borough manager stated that the borough has no intentions of making any changes to the pension calculation because borough officials believe the original calculation was properly prepared.

Auditor's Conclusion: Although the municipality provided some documentation of the hours worked by the police officer between 1985 and 1991, the information does not support full-time status during that time period. Furthermore, the information provided does not support the assertion that the police officer was a member of the plan prior to January 1, 1991. Therefore, based on the criteria previously cited, the finding and recommendation remain as stated.

BELL ACRES 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, 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	\$ 307,902	\$ 301,220	\$ (6,682)	102.2%	\$ 161,760	(4.1%)
01-01-09	340,565	381,523	40,958	89.3%	193,989	21.1%
01-01-11	385,285	472,776	87,491	81.5%	194,511	45.0%

Note: The market values of the plan's assets at 01-01-07 and 01-01-11 have been adjusted to reflect the smoothing of gains and or losses over a 3-year averaging period. The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and or losses at 130% of market value. 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.

BELL ACRES 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.

BELL ACRES 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
2006	\$ 26,253	100.0%
2007	26,484	100.0%
2008	30,462	100.0%
2009	27,962	100.0%
2010	29,391	100.0%
2011	34,937	100.0%

BELL ACRES 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	18 years
Asset valuation method	Fair value, 3-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

BELL ACRES BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Bell Acres Borough Police Pension Plan
Allegheny County
1153 Camp Meeting Road
Sewickley, PA 15143

The Honorable Ronald L. Besong	Mayor
Mr. Dennis C. Young, Jr.	Council President
Mr. Charles Kulbacki	Borough Manager

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