

MOUNT OLIVER BOROUGH POLICE PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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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 Mount Oliver 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 Mount Oliver Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 893, 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
Mount Oliver Borough
Allegheny County
Pittsburgh, PA 15210

We have conducted a compliance audit of the Mount Oliver 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 *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 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 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Oliver 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 Mount Oliver 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 – Pension
Plan Not In Compliance With Act 600 Provisions

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

August 22, 2012

JACK WAGNER
Auditor General

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Mount Oliver Borough has complied with the prior audit recommendation concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

The borough deposited \$21,039 into the pension plan to pay the outstanding 2009 minimum municipal obligation.

Noncompliance With Prior Audit Recommendation

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

- Pension Plan Not In Compliance With Act 600 Provisions

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Pension Plan Not In Compliance
With Act 600 Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document grants a benefit that is not authorized by Act 600. On June 15, 2009, the borough adopted Ordinance No. 913, which provides that “aggregate years of service shall be counted from the date of hiring of an officer.” The ordinance allows officers to receive full-time service credit for part-time service. However, credit for part-time years of service for pension purposes is not authorized by Act 600.

Criteria: Act 600 makes repeated references to full-time service as a basis for receiving pension benefits. Section 1(a) of Act 600 states that boroughs, towns, and townships with police forces of three or more full-time members must establish a police pension plan. Section 3 of Act 600 requires that the ordinance establishing the plan prescribe a minimum period of service of twenty-five years. Given Section 1(a), the service referred to could only be full-time service. This conclusion is supported by the twelve-year vesting provision contained in Section 5(h) of Act 600, under which vested benefits are not payable until the date which would have been the member’s superannuation retirement date if he/she had continued to be employed as a full-time police officer.

Moreover, Section 4 of Act 600 identifies situations in which previous service may be credited for retirement purposes. Other than service in the military, these situations involve full-time service as a police officer.

Additionally, regarding part-time service credit, it is the department’s opinion that Act 600 does not expressly empower municipalities to grant service credit for part-time employment. Nor does such power exist by necessary implication. As noted throughout Act 600, the service for which credit is approved (other than military service) is full-time service. Nowhere in Act 600 does the term “part-time” even appear. Giving credit for part-time service is outside the bounds established by Section 4 and finds no implied support in that or any other section of Act 600.

Cause: Municipal officials are aware that providing credit for part-time service is not authorized by Act 600; however, there are no plans to repeal the ordinance at this time.

Effect: For 2 current full-time police officers who were originally hired as part-time employees, the borough anticipates giving service credit for pension purposes upon their retirement for all service, including part-time service, based on Ordinance No. 913. If full-time service credit for part-time service is given, it will result in the provision of benefits in excess of those authorized by Act 600.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, 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. Additionally, 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 again recommend that borough officials amend the plan's governing document to remove the allowance for the credit of part-time service at its earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600, and/or is contractually obligated to pay benefits in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation report for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, municipal officials should consult with the plan's actuary to determine if Supplemental Actuarial Information Form AG-MP-1 should be prepared. If it is determined the excess benefits had an impact on the borough's state aid allocations received since 2011 and subsequent to the current audit period, the form should be submitted to the Department. Furthermore, after the submission of the form, the plan's actuary should contact the Department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception, but indicated that it is their intent to provide this benefit.

Auditor's Conclusion: Based on the criteria previously cited, the finding and recommendation remain as stated.

MOUNT OLIVER 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	\$ 1,046,451	\$ 929,922	\$ (116,529)	112.5%	\$ 266,885	(43.7%)
01-01-09	886,106	888,543	2,437	99.7%	410,387	0.6%
01-01-11	983,628	946,455	(37,173)	103.9%	413,437	(9.0%)

Note: 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. 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.

MOUNT OLIVER 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.

MOUNT OLIVER BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

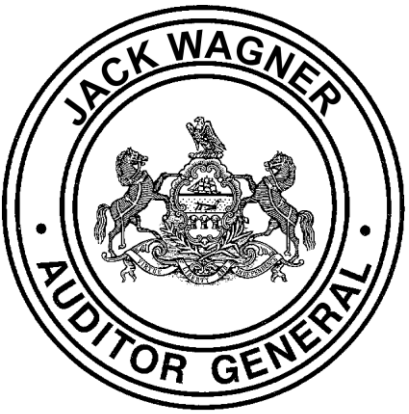
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 67,769	106.0%
2007	69,082	100.1%
2008	48,450	100.1%
2009	71,954	100.0%
2010	76,849	100.0%
2011	71,690	103.7%

MOUNT OLIVER 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	N/A
Remaining amortization period	N/A
Asset valuation method	Market value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%



MOUNT OLIVER BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Mount Oliver Borough Police Pension Plan
Allegheny County
150 Brownsville Road
Pittsburgh, PA 15210

The Honorable James Cassidy	Mayor
Ms. Betty Michener	Council President
Ms. Diane Holzer	Treasurer

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.