

MUNICIPALITY OF BETHEL PARK NONUNIFORMED PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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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 Municipality of Bethel Park Nonuniformed 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.

The Municipality of Bethel Park Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3-12-07A. The plan is also affected by the provisions of collective bargaining agreements between the municipality and its nonuniformed employees.



The Honorable Mayor and Municipal Council
Municipality of Bethel Park
Allegheny County
Bethel Park, PA 15102

We have conducted a compliance audit of the Municipality of Bethel Park Nonuniformed Pension Plan for the period January 1, 2006, to December 31, 2008. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. The Municipality of Bethel Park contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the municipality's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Municipal officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Municipality of Bethel Park Nonuniformed 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 municipality's internal control structure as it relates to the municipality'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 objective.

The results of our tests indicated that, in all significant respects, the Municipality of Bethel Park Nonuniformed 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 – Failure To Refund Members’ Contributions

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 the Municipality of Bethel Park and, where appropriate, their responses have been included in the report.

May 29, 2009

JACK WAGNER
Auditor General

MUNICIPALITY OF BETHEL PARK NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Refund Members’ Contributions

Condition: Municipal officials failed to refund the member contributions of an employee that had 28 years of service and who died on January 28, 2006. This employee did not have a surviving spouse; therefore, her beneficiary is entitled to receive a refund of her accumulated member contributions, with interest. In addition, the municipality also failed to refund member contributions to a member who terminated on October 22, 2004, and a member who terminated on April 28, 2006. Both of these former employees had less than 12 years of credited service with the municipality and therefore were not eligible for a vested pension benefit.

Criteria: Ordinance No. 2-11-02A, at Article VI, Section 6.04, states:

Death of Participant Prior to Retirement – If a Participant shall die before payment of a benefit determined under Section 4.02 has commenced and without eligibility for payment of a Surviving Spouse Benefit under Section 6.03, the Beneficiary shall be eligible to receive a distribution in an amount equal to the Accumulated Contributions of the Participant as of the date of death of the Participant.

Furthermore, Article VII, at Section 7.02 states, in part:

Distribution of Accumulated Contributions – A Participant who’s Employment with the Employer has ceased for any reason other than death or retirement prior to the attainment of Normal Retirement Age shall be entitled to receive a distribution of Accumulated Contributions. . . .

In addition, Accumulated Contributions as referred to in Sections 6.04 and 7.02, are further defined at Article I, Section 1.02 which states:

“Accumulated Contributions” shall mean the total amount contributed by a Participant to this Plan or its predecessor by way of payroll deduction or otherwise, plus interest credited thereon at the rate of three percent (3%) per annum, compounded annually, from the first day of the Plan Year following the date of deposit to the first day of the month in which a distribution of Accumulated Contributions under Sections 6.04 and 7.02 shall be paid or payment of benefits shall commence.

Cause: Municipal officials have failed to adopt adequate internal control procedures to ensure that member contributions were refunded in accordance with the plan’s governing document.

MUNICIPALITY OF BETHEL PARK NONUNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: The failure to refund members' contributions will result in former employees and/or eligible beneficiaries not receiving distributions to which they are entitled.

Recommendation: We recommend that municipal officials determine and pay the refunds that are due in accordance with the plan's governing document.

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

MUNICIPALITY OF BETHEL PARK NONUNIFORMED 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	\$ 8,840,191	\$ 6,889,496	\$ (1,950,695)	128.3%	\$ 2,413,317	(80.8%)
01-01-05	8,586,093	7,495,581	(1,090,512)	114.5%	2,694,901	(40.5%)
01-01-07	9,415,883	9,825,638	409,755	95.8%	2,686,831	15.3%

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.

MUNICIPALITY OF BETHEL PARK NONUNIFORMED 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.

MUNICIPALITY OF BETHEL PARK NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	None	N/A
2004	None	N/A
2005	None	N/A
2006	\$ 98,445	100.0%
2007	95,435	100.0%
2008	2,651	382.2%

MUNICIPALITY OF BETHEL PARK NONUNIFORMED 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	Level dollar, closed
Remaining amortization period	16 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%

MUNICIPALITY OF BETHEL PARK NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Municipality of Bethel Park Nonuniformed Pension Plan
Allegheny County
5100 West Library Avenue
Bethel Park, PA 15102

The Honorable Clifford A. Morton	Mayor
Mr. Timothy J. Moury	Council President
Mr. William J. Spagnol	Manager
Mr. Mark P. Romito	Finance Director

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.