

NEVILLE TOWNSHIP 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 Neville Township 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 Neville Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 653, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.



Board of Township Commissioners
Neville Township
Allegheny County
Pittsburgh, PA 15225

We have conducted a compliance audit of the Neville Township 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.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Neville Township 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 township's internal control structure as it relates to the township'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 Neville Township 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 –
Incorrect Pension Benefit Calculation

Finding No. 2 – Failure To Properly Determine And Fully Pay The Minimum
Municipal Obligation Of The Plan

Finding No. 3 – Incorrect Pension Benefit Calculation

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 Neville Township and, where appropriate, their responses have been included in the report.

April 9, 2008

JACK WAGNER
Auditor General

NEVILLE TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Neville Township has complied with the prior audit recommendations concerning the following:

- Pension Benefits Not In Compliance With Act 600

The pension plan was amended by Ordinance No. 757, which brought the pension plan into compliance with Act 600, as amended; and

- Incorrect Data On Certification Form AG 490 Resulting In An Overpayment Of Ad Hoc Postretirement Adjustment Reimbursement

The township reimbursed \$2,169 to the Commonwealth for the overpayment of the ad hoc postretirement adjustment.

Noncompliance With Prior Audit Recommendation

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

- Incorrect Pension Benefit Calculation

NEVILLE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Pension Benefit Calculation

Condition: As disclosed in our prior audit report, based on the township’s interpretation of a Qualified Domestic Relations Order (QDRO) from the Court of Common Pleas of Allegheny County, on February 1, 1992, the township began paying the ex-spouse of an active police officer, who had met normal retirement eligibility, a monthly payment of \$360 from the pension plan. The officer retired on June 1, 2000, at which time his monthly benefit of \$1,936 was reduced by the \$360, which continues to be paid to the ex-spouse in accordance with the QDRO. However, the officer’s benefit was not actuarially reduced to account for the payments made to his ex-spouse prior to his actual retirement date.

Criteria: Section 414(p)(3)(A) and (B) of the Internal Revenue Code (IRC) directs that a domestic relations order may not “require a plan to provide any type or form of benefit, or any option, not otherwise provided under the plan” and may not “require the plan to provide increased benefits (determined on the basis of actuarial value).”

It is the opinion of this department that the only benefits payable by the township’s pension plan are those to which the participant police officer is entitled. Owing to the QDRO, a portion of these benefits must be distributed to the ex-spouse; put another way, the officer must share his pension entitlement with his former wife. The “debt” if one may call it that, is the police officer’s, not the pension plan’s. Therefore, computation of the officer’s pension benefit must reflect distributions already made to the ex-spouse.

Cause: The township has not complied with the prior audit recommendation because the matter is presently in litigation. The officer has filed suit against the township and, in August of 2004, the township filed a countersuit against the officer. These matters have been consolidated and are to be heard by the Allegheny County Court of Common Pleas.

Effect: Prior to the officer’s retirement, his ex-spouse received 100 payments of \$360 for the period February 1, 1992, to May 1, 2000, totaling \$36,000. This amount was paid from assets of the pension plan.

Recommendation: We again recommend that either the plan be reimbursed for the \$36,000 paid from the pension plan to the officer’s ex-spouse prior to his retirement, or that the retired officer’s pension benefit be actuarially reduced to reflect those payments.

NEVILLE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management’s Response: Resolution of the matter is contingent upon adjudication of the pending litigation.

Auditor’s Conclusion: Compliance with the recommendation will be evaluated during our next audit of the plan, pursuant to the outcome of the pending litigation.

Finding No. 2 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2006, as required by Act 205. The MMO determined by the township did not use a normal cost percentage or an amortization contribution requirement that were included in the actuarial valuation report filed with the Public Employee Retirement Commission (PERC) in effect at the time the calculation was prepared. Based upon an estimate prepared by this department, the township had an unpaid MMO balance of \$30,525 for the year 2006.

Criteria: With regard to the plan’s financial requirements, Section 302(b)(1) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the financial requirements of the pension plan for the following plan year. The financial requirements of the pension plan for the following plan year shall be based on the most recent actuarial valuation report of the pension plan prepared pursuant to Chapter 2.

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. . . .

NEVILLE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials did not comply with the Act 205 requirements because they used data from a preliminary actuarial valuation report instead of the actuarial valuation report that was submitted to PERC.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year.

Recommendation: We recommend that the township properly determine the MMO for the year 2006 using the normal cost percentage and the amortization contribution requirement that were included in the actuarial valuation report filed with PERC and in effect at that time. In addition, the remaining MMO due should be included in the municipal budget and paid 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 township for examination during our next audit of the plan.

Furthermore, plan officials should establish and implement adequate internal control procedures to ensure compliance with Act 205 reporting and funding requirements.

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

Finding No. 3 – Incorrect Pension Benefit Calculation

Condition: The surviving spouse of a police officer, who died on October 25, 2005, is receiving a pension based on 50 percent of his last 36 months of employment which included time the police officer was on workers compensation, instead of his last 36 months of active employment exclusive of workers compensation time, as provided for in the plan's governing document.

Criteria: Ordinance No. 653, at Article XI, states, in part:

Each police officer of the Township of Neville who shall complete the age and service requirements as set forth in Section VII shall receive monthly pension or retirement benefits based on one half (1/2) of the monthly average salary of such police officer during the last thirty-six (36) months of employment. . . .

Effect: The plan is paying pension benefits to the surviving spouse less than those authorized by the pension plan's governing document.

NEVILLE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefit was determined in accordance with the provisions contained in the plan's governing document.

Recommendation: We recommend that municipal officials recalculate the surviving spouse's pension benefit in accordance with the provisions contained in the pension plan's governing document. Also, we recommend that the surviving spouse be paid any difference determined by this recalculation retroactive to the date the benefit commenced, with interest, at a rate earned by the pension plan.

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

NEVILLE TOWNSHIP 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	\$ 1,258,828	\$ 1,440,789	\$ 181,961	87.4%	\$ 272,073	66.9%
01-01-05	1,325,466	1,599,510	274,044	82.9%	275,875	99.3%
01-01-07	1,412,108	1,606,620	194,512	87.9%	-	N/A

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 3-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.

NEVILLE TOWNSHIP 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.

NEVILLE TOWNSHIP 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	\$ 24,766	119.2%
2003	33,072	100.0%
2004	30,393	100.0%
2005	41,313	100.0%
2006	28,793	100.0%
2007	36,626	100.0%

NEVILLE TOWNSHIP 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	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	None assumed



NEVILLE TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Neville Township Police Pension Plan
Allegheny County
5050 Grand Avenue
Pittsburgh, PA 15225

Mr. Richard E. Rutter Chairman, Board of Township Commissioners

Ms. Denise E. Moore Township Secretary

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.