

NORTH BELLE VERNON BOROUGH NONUNIFORMED PENSION PLAN

WESTMORELAND COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General	3
Findings and Recommendations:	
Finding No. 1 – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation	5
Finding No. 2 – Failure To Properly Determine The Minimum Municipal Obligation Of The Plan.....	6
Supplementary Information	8
Report Distribution List	13

ABBREVIATION

PERC - Public Employee Retirement Commission

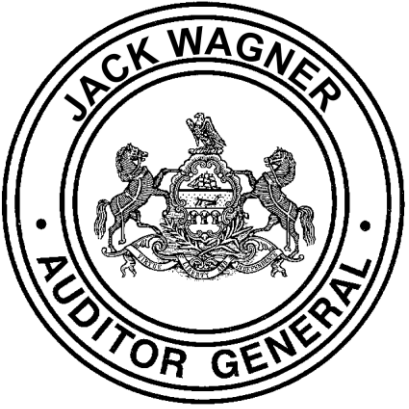
BACKGROUND

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 North Belle Vernon Borough 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 North Belle Vernon Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 9809, as amended. The plan is also affected by the provisions of individual employment agreements between the borough and its nonuniformed employees.



The Honorable Mayor and Borough Council
North Belle Vernon Borough
Westmoreland County
North Belle Vernon, PA 15012

We have conducted a compliance audit of the North Belle Vernon Borough Nonuniformed 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 this objective.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the North Belle Vernon Borough Nonuniformed 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the North Belle Vernon Borough 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 findings further discussed later in this report:

Finding No. 1 – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

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

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 North Belle Vernon Borough and, where appropriate, their responses have been included in the report.

June 4, 2012

JACK WAGNER
Auditor General

NORTH BELLE VERNON BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Condition: Actuarial valuation report form 203C, with a valuation date of January 1, 2011, submitted to the Public Employee Retirement Commission (PERC), contained incorrect information. The information was based on data supplied by the municipality to the plan's actuary.

The municipality supplied the following incorrect information to the plan's actuary:

- The actuarial valuation report did not disclose any average administrative expenses on Page 4; however, actual administrative expenses in 2010 were \$750;
- The actuarial valuation report did not disclose any actual or estimated members' contributions on Page 4; however, actual 2010 member contributions were \$1,955;
- The actuarial valuation report disclosed that average monthly earnings are based on the last 60 months; however, the plan's governing document states that average monthly earnings are based on the highest 5 years out of the last 10 years;
- The actuarial valuation report contained a post-retirement survivor benefit of the return of member contributions with interest; however, the plan's governing document does not have this provision;
- The actuarial valuation report disclosed that the plan does not have a non-service related disability provision; however, the plan's governing document only has a disability provision. Service-related or non-service related is not specified; and
- The actuarial valuation report contained a post-retirement adjustment for a late retirement benefit based on the plan's benefit formula; however, the plan's governing document does not have this provision.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

NORTH BELLE VERNON BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the information submitted to the plan's actuary was consistent with the provisions contained in the plan's governing document.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the plan's actuary may result in the municipality receiving an incorrect allocation of state aid.

In addition, the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO); therefore, the incorrect data may also result in an erroneous MMO calculation.

Recommendation: We recommend that plan officials contact PERC to determine if a revised actuarial valuation report may be filed. If a revised report is prepared and accepted by PERC, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 402D Finance Building, Harrisburg, PA 17120.

Furthermore, we recommend that, in the future, plan officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

Management's Response: Municipal officials agreed with the finding without exception. A revised January 1, 2011, actuarial valuation report was prepared, reviewed by the plan's CAO and submitted to PERC.

Auditor's Conclusion: Based on the management response, it appears municipal officials have partially complied with the finding recommendation. Full compliance will be evaluated during our next audit of the plan.

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

Condition: Plan officials did not properly determine the minimum municipal obligation (MMO) of the nonuniformed pension plan for the year 2012, as required by Act 205. The MMO determined by the municipality understated administrative expenses by \$2,600. Based upon an estimate prepared by this department, the municipality will have an unpaid MMO balance of \$2,600 for the year 2012.

NORTH BELLE VERNON BOROUGH NONUNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

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 MMO was properly determined in accordance with Act 205 requirements.

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 municipal officials determine and pay the 2012 MMO using the correct amount of administrative expenses.

We also recommend that plan officials establish adequate internal control procedures to ensure that the MMO is properly determined in accordance with Act 205 requirements.

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

NORTH BELLE VERNON BOROUGH 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. 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	\$ 97,520	\$ 111,020	\$ 13,500	87.8%	\$ 103,574	13.0%
01-01-09	111,945	133,041	21,096	84.1%	117,027	18.0%
01-01-11	126,196	136,585	10,389	92.4%	60,885	17.1%

NORTH BELLE VERNON BOROUGH 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.

NORTH BELLE VERNON BOROUGH NONUNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

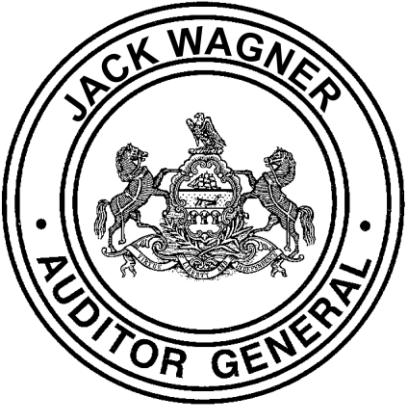
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2006	\$ 4,796	100.0%
2007	5,740	105.4%
2008	4,184	107.3%
2009	5,969	104.2%
2010	6,514	100.0%
2011	6,748	104.5%

NORTH BELLE VERNON BOROUGH 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed
Remaining amortization period	9 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	5.0%



NORTH BELLE VERNON BOROUGH NONUNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

North Belle Vernon Borough Nonuniformed Pension Plan
Westmoreland County
503 Speer Street
North Belle Vernon, PA 15012

The Honorable Edward J. Lyons, Sr.	Mayor
Mr. Dennis R. Simboli	Council President
Ms. Mary L. Berish	Borough Manager
Ms. Lisa J. Pollock	Chief Administrative Officer

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.