

PORT VUE BOROUGH POLICE PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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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 Port Vue 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 Port Vue Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 155, 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
Port Vue Borough
Allegheny County
Port Vue, PA 15133

We have conducted a compliance audit of the Port Vue Borough Police Pension Plan for the period January 1, 2008, to December 31, 2010. 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. Port Vue Borough contracted with an independent certified public accounting firm for annual audits of its financial statements 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 Port Vue 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 Port Vue 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 findings further discussed later in this report:

- Finding No. 1 - Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 2 - Failure To Determine And Submit The Financial Requirements and Minimum Municipal Obligation Of The Plan
- Finding No. 3 - Failure To Deposit State Aid Into The Pension Plan

We also noted a matter that has been included in the following observation further discussed later in this report:

- Observation - Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

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 Port Vue Borough and, where appropriate, their responses have been included in the report.

January 26, 2012

JACK WAGNER
Auditor General

PORT VUE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Port Vue Borough has complied with the prior audit recommendation concerning the following:

- Failure To Provide Vested Benefit

In April 2009, the vested plan member began receiving his \$810 monthly pension benefit in accordance with the plan's governing document. In addition, on March 9, 2009, the vested member received a lump sum payment of \$23,496, representing payments due from November 2006 through March 2009.

Noncompliance With Prior Audit Recommendation

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

- Pension Benefits Not In Compliance With Act 600 Provisions

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: As disclosed in our prior audit report, on April 17, 2002, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefits structure of police pension plans subject to Act 600. Municipal officials have still not amended the police pension plan’s benefit structure to adopt all the changes mandated by Act 30. In addition, the plan’s governing document, Ordinance No. 155, as amended, contains benefit provisions that conflict with the collective bargaining agreements between the police officers and the borough and are not in compliance with Act 600. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Survivor’s benefit	A lifetime benefit paid to the surviving spouse or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age, equal to no less than 50% of the pension the member was receiving or entitled to receive had he been retired at the time of death.	A benefit is payable to the employee’s spouse upon his death after reaching normal retirement eligibility. The benefit shall equal 100% of the benefit the employee was receiving or was entitled to receive. This benefit is payable until the spouse remarries or death whichever occurs first.	A lifetime survivor’s benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. (“Attending college shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester).

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Pre-vesting death benefit	A refund of member's contributions upon the discontinuance of employment.	Not addressed	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of eighteen years, or, if attending college, under or attaining the age of twenty-three years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member's investment in the pension fund, unless the member has designated another beneficiary for this purpose.

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service increment benefit	Not provided	An employee, who has greater than twenty-five (25) years of service with the Employer as a full time employee, shall be entitled to additional monthly pension increments of Fifty (\$50.00) Dollars per month for each additional year of service commencing with the completion of twenty-five (25) years of service. The maximum additional monthly increment shall be Two Hundred (\$200.00) Dollars monthly regardless of the number of years said employee shall have been employed.	Any borough, town, township or regional police department may establish and pay length of service increments for years of service beyond twenty-five years for each completed year of service in excess of twenty-five years, not to exceed one hundred dollars (\$100) per month for each completed year of service in excess of twenty-five years up to a maximum of five hundred dollars (\$500) per month after five completed years of service in excess of twenty-five years. Such length of service increments may be paid in addition to other monthly pension or retirement allowances.

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	A disability benefit payable equal to a normal retirement benefit (50% of Final Average Salary) as if the participant had retired at the time of his disability, reduced by any workers compensation payments and 66.67% of primary Social Security benefits.	Not addressed	The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document at no less than 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600, as amended.

Cause: Plan officials failed to develop adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan’s benefit structure into compliance with Act 600, as amended, at their earliest opportunity to do so. If continuation of benefits contrary to Act 600, as amended, is justified by the provisions of the current collective bargaining agreement, we recommended that the benefits mandated by Act 30 be adopted as soon as deemed appropriate, but not later than the expiration of the current collective bargaining agreement on December 31, 2012.

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Management’s Response: Municipal officials agreed with the finding without exception and indicated their intent to revise the plan’s governing document to comply with Act 600 provisions as well as their intent for the next collective bargaining agreement to reflect compliance with Act 600 and consistency with the plan’s governing document.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not determine the financial requirements of the plan (FRP) or the minimum municipal obligation (MMO) of the police pension plan for the years 2008, 2009, 2010 and 2011, as required by Act 205. In addition, the chief administrative officer (CAO) of the plan failed to submit the FRP and MMO to the governing body of the municipality, as required by Act 205.

Criteria: With regard to the FRP, Section 302(b) 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.

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.

Further, Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials anticipated the FRP and MMO calculations would not result in an amount due to the pension plan.

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

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure the FRP and MMO are prepared and submitted to the governing body of the municipality in accordance with Act 205 requirements.

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

Finding No. 3 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: The municipality did not deposit the full amount of its 2010 state aid allocation into the pension plan. The municipality received its 2010 state aid allocation in the amount of \$37,757 on December 6, 2010; however, as of the date of this audit report, \$14,753 due to be allocated to the police pension plan remained in the borough's general fund.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the full amount of the 2010 state aid allocation was deposited into the pension plan in accordance with Act 205 requirements.

Effect: By not depositing the full amount of the 2010 state aid allocation into the pension plan, the funds were not available to pay operating expenses or for investment and the risk of misapplication is increased.

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the municipality deposit the borough's remaining 2010 state aid allocation of \$14,753, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into the pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

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

PORT VUE 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, 2005, 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)]
01-01-05	\$ 523,661	\$ 184,028	\$ (339,633)	284.6%	\$ 92,101	(368.8%)
01-01-07	555,084	228,071	(327,013)	243.4%	141,692	(230.8%)
01-01-09	512,905	348,230	(164,675)	147.3%	178,347	(92.3%)

PORT VUE 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
2005	None	N/A
2006	None	N/A
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	None	N/A

PORT VUE 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, 2009
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	6.75%
Projected salary increases	5.0%

PORT VUE BOROUGH POLICE PENSION PLAN
OBSERVATION

Observation – Absence Of Measures Necessary To Ensure An Effective Transition Of Duties

Plan officials have not prepared management guidelines which describe the duties and responsibilities of municipal and plan officials in the operation of the police pension plan.

Such measures are necessary to ensure an acceptable transition of duties in the event of changes in management personnel. Without such measures, the risk exists that important filing deadlines may be overlooked, fundamental plan obligations to active or retired members may not be correctly fulfilled, state aid may be adversely affected and/or delayed and investment opportunities may be lost.

The borough should consider preparing a written operations manual which describes, in detail, the duties of municipal and plan officials responsible for the administration of the pension plan. This manual should be kept on file with other important plan documents.

PORT VUE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Port Vue Borough Police Pension Plan
Allegheny County
1191 Romine Avenue
Port Vue, PA 15133

The Honorable Brien A. Hranics	Mayor
Mr. Mark D. Tortorice	Council President
Ms. Joan E. Winters	Borough Manager

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.