

PORT VUE BOROUGH POLICE PENSION PLAN

ALLEGHENY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Finding	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions	6
Finding No. 2 – Failure To Provide Vested Benefit	10
Supplementary Information	12
Report Distribution List	17

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 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 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, 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 finding 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 basic financial statements 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 an internal control structure 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. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough'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 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 Provide Vested Benefit

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.

April 29, 2008

JACK WAGNER
Auditor General

PORT VUE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

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 benefit structure of police pension plans subject to Act 600. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. In addition, the pension plan’s governing document, Ordinance No. 155, as amended, contains benefit provisions that conflict with the collective bargaining agreement 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>
Killed in Service benefit	50% of the deceased participant’s normal retirement benefit.	Not addressed	Pensions for the families of members killed in service shall be calculated at 100% of the member’s salary at the time of death.
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.

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>
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 Ten (\$10.00) 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 One Hundred (\$100.00) 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.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the police pension plan’s benefit structure should be in compliance with Act 600, as amended.

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

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 recommend 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, 2009.

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

Finding No. 2 – Failure To Provide Vested Benefit

Condition: A former plan member, who terminated on July 1, 1996, with 21 years of service, reached his normal retirement date on November 1, 2006, at which time he was eligible for a vested pension benefit. However, as of the date of this report, no vested pension benefits have been paid.

Criteria: Section 5(h) of Act 600 states, in part:

The ordinance or resolution establishing the police pension fund may provide for a vested benefit provided that such would not impair the actuarial soundness of the pension fund. Under the provisions of such benefit, should a police officer, before completing superannuation retirement age and service requirements but after having completed twelve years of total service, for any reason cease to be employed as a full-time police officer by the municipality or regional police department in whose pension fund he has been a member, he shall be entitled to vest his retirement benefits by filing with the governing body within ninety days of the date he ceases to be a full-time police officer a written notice of his intention to vest. Upon reaching the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer he shall be paid a partial superannuation retirement allowance....

PORT VUE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, Ordinance No. 423, at Section 528, states:

1. Benefits shall be vested provided said vested benefits do not impair the actuarial soundness of the pension fund;
2. Under the provisions of such benefit, should a full-time police officer, before attaining super annuation retirement age (55 years) and completing service requirements but after twelve (12) years of total service, for any reason cease to be employed as a full-time police officer by the Borough, said full-time police officer shall be entitled to vest his retirement benefits by filing with the Borough Council, within ninety (90) days of the date he ceases to be full-time police officer a written notice of his intention to vest; and
3. Said benefits shall be vested and thereafter paid in accordance with the relevant provisions of Act 600 of 1955, as amended, regulating vested benefits.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the vested plan member began receiving his monthly pension benefit effective on his normal retirement date.

Effect: The vested plan member is not receiving the monthly pension benefit that he is entitled to receive.

Recommendation: We recommend that the vested plan member begin receiving the monthly pension benefit that is due in accordance with the plan's governing document. In addition, plan officials should determine and pay the pension benefits that are due to the vested member retroactive to his normal retirement date of November 1, 2006, with interest, at a rate earned by the pension plan.

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, 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	\$ 521,450	\$ 170,808	\$ (350,642)	305.3%	\$ 113,675	(308.5%)
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%)

PORT VUE 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.

PORT VUE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

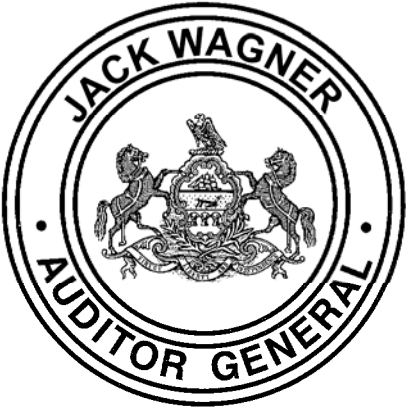
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	None	N/A
2003	None	N/A
2004	None	N/A
2005	None	N/A
2006	None	N/A
2007	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, 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	7.25%
Projected salary increases	5.0%



PORT VUE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

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

The Honorable Robert C. Erkel	Mayor
Mr. Mark D. Tortorice	Council President
Ms. JoAnn M. Gubanic	Secretary/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.