

**SCOTT TOWNSHIP POLICE 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 Scott 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Scott Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1499-02, 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  
Scott Township  
Allegheny County  
Scott Township, PA 15106

We have conducted a compliance audit of the Scott Township Police 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. Scott Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Scott 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 objective.

The results of our tests indicated that, in all significant respects, the Scott 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 finding further discussed later in this report:

Finding – Unauthorized Lump-Sum Pension Benefit Granted

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

June 26, 2009

JACK WAGNER  
Auditor General

SCOTT TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Unauthorized Lump-Sum Pension Benefit Granted

Condition: The township granted a monthly pension benefit of \$4,390 to a police officer who retired on January 30, 2008. This benefit was properly determined in accordance with the plan's governing document and the applicable provisions of Act 600, as amended. However, in addition to the monthly pension benefit granted to the police officer, the township paid the retired officer an additional lump-sum benefit in the amount of \$158,045. The lump-sum benefit was determined by multiplying the retired police officer's monthly pension benefit by 36, which represents the time period from February 1, 2005, to January 30, 2008. This lump-sum payment was based on an amendment made to the plan's governing document that granted a Deferred Retirement Option Plan (DROP) benefit to the retired officer.

Ordinance No. 1575-07 at Section 13.18, which amended the plan's governing document states:

Deferred Retirement Option Plan Window – A Participant who is the Township Chief of Police, who has completed at least forty (40) years of service and who would have been eligible to receive a Normal Retirement Benefit at least three (3) years prior to this window period, may make an election under this section 13.18 to retire and receive their Normal Retirement Benefit under section 4.02, a Service Increment Benefit provided for under section 4.06, as well (as) a reverse Deferred Retirement Option Plan (DROP) benefit pursuant to Article XIII, provided that election to retire and such retirement shall occur prior to January 31, 2008. The reverse DROP benefit shall cover a period not to exceed three (3) years. Such Participant shall receive a monthly retirement benefit commencing on the first of the month coincident with or following termination of Employment in an amount equal to the Participant's Normal Retirement Benefit, plus Service Increment Benefit in addition to the lump sum reverse DROP benefit.

This Deferred Retirement Option Plan Window under this section 13.18 shall only be available to Participants who are the Chief of Police, who have at least forty (40) years of service and who retire hereunder prior to January 31, 2008. Any Participant who does not retire hereunder prior to January 31, 2008, shall have forever waived any opportunity to do so and shall have their retirement benefits determined under the terms of the Plan without regard to this section 13.18.

SCOTT TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

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

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.  
(Emphasis added)

Therefore, there are no provisions in Act 600 which provide for an additional lump-sum payment to be paid to a retiree in addition to a normal retirement benefit.

Cause: The pension benefit was granted pursuant to the provisions of Ordinance No. 1575-07, which amended the plan's governing document to provide a retirement benefit applicable to only one individual.

Effect: The retired police officer received an unauthorized lump-sum payment in the amount of \$158,045.

Furthermore, the unauthorized lump-sum payment reduces the amount of funds available to pay authorized plan expenses or for investment purposes.

Recommendation: We recommend that municipal officials consult with their solicitor to determine whether the township is responsible to reimburse the plan from its general fund for the unauthorized pension benefit granted.

We also recommend that future pension benefit determinations be made in accordance with Act 600 provisions.

SCOTT TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials indicated they would consult with their solicitor regarding the finding and work towards a resolution that would achieve compliance. Subsequently, the Department received correspondence from the township's solicitor. The solicitor maintained that the township appropriately calculated the pension benefit and the DROP amount. In particular, the Chief of Police continued to render service to the township through his retirement in January of 2008. The calculation of the lump-sum payment was in accordance with the Ordinance. Moreover, it seems an unusual hardship to require return of the lump-sum payment or a reduction of the pension at this late date.

Auditor's Conclusion: Based on the Criteria previously cited, it remains the position of the Department that the lump-sum payment made to the retired police chief, while in compliance with Ordinance No. 1575-07 at Section 13.18, is not authorized by Act 600. Therefore, the finding and recommendation remain as stated.

SCOTT 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	\$ 9,440,993	\$ 7,964,680	\$ (1,476,313)	118.5%	\$ 1,202,242	(122.8%)
01-01-05	10,804,249	8,972,130	(1,832,119)	120.4%	1,384,838	(132.3%)
01-01-07	11,765,212	9,707,501	(2,057,711)	121.2%	1,339,373	(153.6%)

SCOTT 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.

SCOTT TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

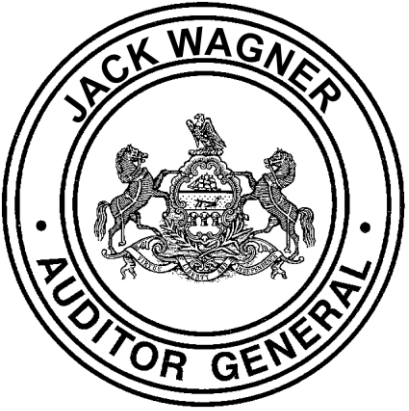
Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	None	N/A
2004	None	N/A
2005	None	N/A
2006	None	N/A
2007	None	N/A
2008	None	N/A



SCOTT 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	7.5%
Projected salary increases *	4.75%
* Includes inflation at	3.0%



SCOTT TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Scott Township Police Pension Plan  
Allegheny County  
301 Lindsay Road  
Scott Township, PA 15106

Ms. Eileen L. Myers	President, Board of Township Commissioners
Ms. Denise H. Fitzgerald	Township Manager
Ms. Sandra A. Novelli	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](http://www.auditorgen.state.pa.us).