



**CITY OF SHARON POLICE
PENSION PLAN**

MERCER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2011 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

City Council
City of Sharon
Mercer County
Sharon, PA 16146

We have conducted a compliance audit of the City of Sharon Police Pension Plan for the period January 1, 2011 to December 31, 2012. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- Whether transfers were properly authorized, accurate, timely and properly recorded.

The City of Sharon contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Sharon 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 city's internal controls as they relate to the city'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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Sharon 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:

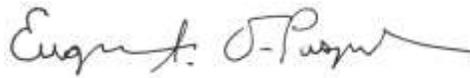
Finding – Noncompliance With Prior Audit Recommendation –
Inconsistent And Unauthorized Pension Benefit Provisions

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by city officials. We are concerned by the city's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of the City of Sharon and, where appropriate, their responses have been included in the report.

April 29, 2014

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 City of Sharon 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Sharon Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapters 286 and 287 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers. The plan was established April 12, 1967. Active members were required to contribute 3 percent of monthly compensation to the plan in year 2011. The contribution was increased in 2012 to 4 percent of monthly compensation. As of December 31, 2012, the plan had 26 active members, 1 terminated member eligible for vested benefits in the future and 33 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2012, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 20 years of service.
Early Retirement	None
Vesting	100% after 10 years of service. If hired on or after January 1, 2008, 100% after 12 years of service.

Retirement Benefit:

50% of Final Monthly Average Salary plus a service increment equal to 1/40th of the retirement allowance times years of completed service over 20 years (service beyond age 65 is not counted) to a maximum increment of \$100 per month. Final Monthly Average Salary is defined as the greater of (a) the rate of the participant's monthly compensation at retirement, death or termination of employment or (b) the sum of compensation received during the five highest years prior to retirement, death or termination of employment, divided by 60.

Survivor Benefit:

Before Retirement Eligibility	Any police officer who has less than 10 years of service and who dies not in the line of duty, shall be entitled to 25% of his Final Monthly Average Salary computed as of the time of his death. For death after 10 years of service, an officer shall be entitled to 50% of his Final Monthly Average Salary as of the time of his death.
After Retirement Eligibility	100% to the widow during her lifetime. If the widow dies or already has died, then 50% (100% for disability pensioners) to a child or children of the officer under the age of 18.

BACKGROUND – (Continued)

Disability Benefit:

Service Related	Normal Retirement Benefit including Service Increment. If hired on or after January 1, 2008, the benefit is offset by Workers Compensation payments or Enforcement Officers Disability Benefit Law payments.
Non- Service Related	25% of Salary at the time of his disability for any police officer with less than 10 years of service who is disabled due to injury or illness not in the line of duty. After 10 years of service, an officer shall be entitled to 50% of Salary at the time of his disability.

CITY OF SHARON POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

The City of Sharon has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Inconsistent And Unauthorized Pension Benefit Provisions

CITY OF SHARON POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefit Provisions

Condition: As disclosed in the prior 2 audit reports, the city adopted Ordinance No. 07-09 effective January 1, 2008. Pursuant to this ordinance, police officers hired as of January 1, 2008, are subject to the provisions of the Third Class City Code. The collective bargaining agreements for the period January 1, 2008 to December 31, 2010, and the period January 1, 2011 to December 31, 2013, between the city and its police officers contain a vesting provision that is not consistent with Ordinance No. 07-09 and is not in compliance with the Third Class City Code. In addition, Ordinance No. 07-09 and the collective bargaining agreement contain a non-service related disability survivor benefit that is not in compliance with the Third Class City Code, as noted below:

<u>Benefit Provision</u>	<u>Ordinance No. 07-09 Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Vesting	Vested Interest means a member of the Association who has attained twelve (12) or more years of Service shall obtain a vested interest in the plan.	If any Sharon Police Officer terminates his employment and has completed no less than ten (10) full years of eligible service, then in said event, the Police Officer's pension shall vest...	A minimum of 12 years of full-time service to vest their retirement benefits.
Nonservice-Related Disability Survivor Benefit	Paid to the surviving spouse until the date of death of the surviving spouse... if the Participant died without a surviving spouse, ... 50% of pension shall be paid monthly in equal shares to the surviving children of the deceased Participant until the death or attainment of age 18 of each child....	Paid to the surviving spouse until the date of death of the surviving spouse.	For families, a continuation of the disability benefit payment to the spouse until death or remarriage, then to the child or children under age 18.

CITY OF SHARON POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: Ordinance No. 07-09 and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with the provisions of the Third Class City Code for police officers hired as of January 1, 2008.

Cause: The city has been unable to resolve these issues through the collective bargaining process.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Furthermore, providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the city received state aid based on unit value for its pension plans during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that municipal officials take appropriate action to ensure that Ordinance No. 07-09 and the collective bargaining agreement contain consistent benefit provisions in accordance with the Third Class City Code for police officers hired after January 1, 2008, at their earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception and stated that they will make every attempt to comply.

Auditor's Conclusion: We are concerned by the municipality's failure to comply with this prior audit finding and encourage municipal officials to effect compliance with the finding recommendation at their earliest opportunity to do so.

CITY OF SHARON 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, 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	\$ 9,074,131	\$ 10,008,088	\$ 933,957	90.7%	\$ 1,459,418	64.0%
01-01-09	8,573,807	10,223,026	1,649,219	83.9%	1,399,831	117.8%
01-01-11	8,493,783	10,495,978	2,002,195	80.9%	1,621,902	123.4%

Note: The market value of the plan's assets at 01-01-07 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. These methods 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.

CITY OF SHARON 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. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CITY OF SHARON POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 251,124	100.0%
2008	264,075	100.0%
2009	269,443	100.0%
2010	238,845	100.0%
2011	340,929	100.0%
2012	348,588	100.0%

CITY OF SHARON 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return *	7.25%
Projected salary increases *	4.49%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.0%

CITY OF SHARON POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Sharon Police Pension Plan
Mercer County
155 West Connelly Boulevard
Sharon, PA 16146

Mr. Edward Palanski	Council President
Mr. Scott Andrejchak	City Manager
Ms. Tammy Fuchs	Human Resource Coordinator

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