



**MEDIA BOROUGH POLICE  
PENSION PLAN**

**DELAWARE 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**

The Honorable Mayor and Borough Council  
Media Borough  
Delaware County  
Media, PA 19063

We have conducted a compliance audit of the Media Borough 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 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. 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 terms of the contractual agreement with the Pennsylvania State Association of Boroughs are in accordance with the plan's governing document, if separately stated, and 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 Deferred Retirement Option Plan (DROP) participants' benefit payments are properly determined in accordance with the provisions of the DROP and any other applicable laws and regulations.

Media 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.

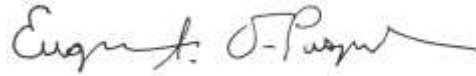
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Media Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and 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 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 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 objective.

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

#### Finding – Inconsistent Pension Benefits

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 Media Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long, sweeping horizontal stroke extending to the right.

EUGENE A. DEPASQUALE  
Auditor General

March 24, 2014

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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 Media 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 Media Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 691, 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 plan was established January 1, 1957. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2012, the plan had 15 active members, 2 terminated members eligible for vested benefits in the future and 9 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 25 years of service.

Early Retirement     20 years of service.

Vesting                100% after 12 years of service.

### Retirement Benefit:

50% of final 36 months average salary, plus a service increment of \$100 per month after 26 years of service, \$200 per month after 27 years and \$250 per month after 28 years or more.

### Survivor Benefit:

Before Retirement Eligibility    Refund of member contributions plus interest.

After Retirement Eligibility     A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

For total and permanent disablement, a benefit equal to the greater of 50% of the member's salary at the time the disability was incurred or 100% of the member's annual salary during the last 12 months of employment divided by 12 and offset by any worker's compensation received. The disability benefit shall be offset by Social Security disability benefits.

MEDIA BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Inconsistent Pension Benefits**

Condition: The pension plan’s governing document, Ordinance No. 691, as amended, and a separately executed Joinder Agreement with the Pennsylvania State Association of Boroughs Municipal Retirement Trust (PSABMRT), contain a disability benefit provision that conflicts with the collective bargaining agreement between the police officers and the borough, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Disability pension calculation	The amount of the disability retirement benefit shall be equal to 50% of the member’s salary at the time the disability was incurred or one-twelfth of the participant’s compensation over the last twelve months of active employment, reduced by the participant’s monthly Worker’s Compensation entitlement. Such reduction shall continue to apply even if the payment of Worker’s Compensation benefits shall cease due to any commutation of such benefits. In no event may the benefit be less than 50% of the member’s salary at the time the disability was incurred. The disability retirement benefit shall be offset by Social Security disability benefits.	Effective January 1, 2013, a disability pension shall be calculated at 70% of the previous 12-month salary. If an employee is permanently disabled from working in any capacity and is granted Social Security Disability benefits on the basis that he or she is unable to perform any gainful employment, the disability pension shall be calculated at 100% of the previous 12-month salary. Previous 12 month salary shall be calculated as it is currently calculated under the consolidated collective bargaining agreement and pension plan. Any officer who receives a 100% disability pension and is later determined to be medically able to perform gainful employment shall be reduced to a 70% pension.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent disability benefit provisions to ensure the accuracy of the benefit determinations.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the disability benefit provisions were consistent among the various plan documents.

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



MEDIA BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent disability benefit provisions at their earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception. Borough Council will consider adoption of a revised joinder agreement on April 17, 2014, which would include the reduction of the disability pension to 70%.

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

MEDIA 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, 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	\$ 5,326,542	\$ 6,898,414	\$ 1,571,872	77.2%	\$ 1,275,872	123.2%
01-01-09	5,867,037	8,211,124	2,344,087	71.4%	1,391,319	168.5%
01-01-11	6,746,942	9,262,969	2,516,027	72.8%	1,428,973	176.1%

Note: The market values of the plan's assets at 01-01-07, 01-01-09 and 01-01-11, have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. This method 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.

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

MEDIA 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
2007	\$ 309,186	100.0%
2008	389,444	100.0%
2009	410,021	100.0%
2010	389,029	100.0%
2011	420,285	100.0%
2012	504,891	100.0%

MEDIA 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	Retirees will receive an increase equal to the percentage change in the Philadelphia Area Consumer Price Index.

MEDIA BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Media Borough Police Pension Plan  
Delaware County  
301 North Jackson Street  
Media, PA 19063

The Honorable Robert A. McMahon	Mayor
Mr. Brian C. Hall	Council President
Mr. Jeffery A. Smith	Borough Manager

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).