

# COMPLIANCE AUDIT

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## Robeson Township Police Pension Plan Berks County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

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February 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
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**EUGENE A. DePASQUALE**  
**AUDITOR GENERAL**

Board of Township Supervisors  
Robeson Township  
Berks County  
Birdsboro, PA 19508

We have conducted a compliance audit of the Robeson Township Police Pension Plan for the period January 1, 2011 to December 31, 2013. 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 employees 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.

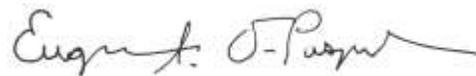
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Robeson Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township'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 Robeson 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 – Incorrect Data On Certification Form AG 385 Resulting In An  
Overpayment Of State Aid

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



EUGENE A. DEPASQUALE  
Auditor General

January 14, 2015

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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 Robeson 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 Robeson Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 02-03, 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. The plan was established June 12, 1977. Active members are required to contribute 3.6 percent of compensation to the plan. As of December 31, 2013, the plan had 5 active members, no terminated members eligible for vested benefits in the future, and 1 retiree receiving pension benefits.

## **BACKGROUND – (Continued)**

As of December 31, 2013, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of the average total compensation over the final 36 months of employment, plus an incremental monthly pension of 1.25% of average compensation for each completed year in excess of 25 years, maximum \$100 per month.

### Survivor Benefit:

Benefit equals 50% of the retirement benefit payable to the surviving spouse or eligible child of active member who dies after retirement eligibility but is not killed in service.

### Service Related Disability Benefit:

Benefit equals 50% of the member's monthly salary at the time of disablement, reduced by Social Security benefits.

ROBESON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The township certified an ineligible police officer (2 units) and overstated payroll by \$96,064 on the Certification Form AG 385 filed in 2014. The data contained on this certification form is based on prior calendar year information. In addition, the Certification Form AG 385 contained a discrepancy in the number of active members reported on the certification form (6) and the number of participants contained on the supporting personnel roster (5) included with the certification form.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

In addition, the instructions that accompany Certification Form AG 385 state, in part:

Complete PERSONNEL ROSTERS for each pension plan (Uniformed and Non-Uniformed) and return with Certification Form AG–385. Totals from the Personnel Roster MUST EQUAL totals on the Certification Form AG–385.

Cause: Although plan officials correctly listed the 5 eligible police officers on the personnel roster which serves as support for Certification Form AG 385, officials inadvertently reported 6 as the total number of employees included on the certification form which included an officer that resigned from service with the township, effective June 18, 2013, based on a separation and general release agreement executed June 13, 2013. In addition, the township lacked adequate internal control procedures to ensure that reporting discrepancies were identified and corrected in a timely manner.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the township for distribution to its pension plans. Because the township’s state aid allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2	\$ 3,873	\$ 7,746

ROBESON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$7,746, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also recommend that in the future, plan officials establish adequate internal control procedures such as having another individual other than the preparer, review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: Plan officials disagreed with the finding, indicating that although the officer signed his separation and general release agreement on June 13, 2013, to terminate his employment with the township, his benefits were continued through February 23, 2014. The township further stated that this terminated officer was also paid for his accrued leave time that totaled over 68 days past his signing date, which carried him well past the mid-year point that was used to determine his eligibility to be included in the officer count for certification purposes.

Auditor's Conclusion: Although the terminated officer was paid salary and benefits through February 2014, these amounts were included as part of a severance package included in the overall separation and general release agreement with the township and the officer ultimately resigned his employment with the township effective June 18, 2013. Consequently, for 2013, he was not employed for six consecutive months as a full-time employee with the township as required by Act 205 to be eligible for certification. Therefore, the finding and recommendation remain as stated.

ROBESON 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. The historical information, beginning as of January 1, 2009, 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)]
01-01-09	\$ 867,380	\$ 1,144,510	\$ 277,130	75.8%	\$ 421,953	65.7%
01-01-11	1,257,928	1,351,195	93,267	93.1%	465,578	20.0%
01-01-13	1,582,605	1,675,534	92,929	94.5%	501,091	18.5%

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

ROBESON 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
2008	\$ 71,159	118.1%
2009	78,749	100.0%
2010	76,286	100.0%
2011	97,876	100.0%
2012	74,239	100.0%
2013	72,241	100.0%

ROBESON 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

ROBESON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Robeson Township Police Pension Plan  
Berks County  
8 Boonetown Road  
Birdsboro, PA 19508

Mr. Roger K. Feeg	Chairman, Board of Township Supervisors
Mr. Thomas C. Keim	Township Manager
Ms. Kathleen C. Farrell	Secretary

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).