

COMPLIANCE AUDIT

Tredyffrin Township Police Pension Plan Chester County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

March 2015



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Tredyffrin Township
Chester County
Berwyn, PA 19312

We have conducted a compliance audit of the Tredyffrin 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 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for all 9 of the plan members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.

Tredyffrin Township contracted with an independent certified public accounting firm for annual audits of the Tredyffrin Township Police Pension Plan's 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 effective internal controls to provide reasonable assurance that the Tredyffrin 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 objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, 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 Tredyffrin 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 – Noncompliance With Prior Audit Recommendation - Inconsistent
And/Or 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 township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations 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 Tredyffrin Township and, where appropriate, their responses have been included in the report.



EUGENE A. DEPASQUALE
Auditor General

March 6, 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 Tredyffrin 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 Tredyffrin Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. HR-72, 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 August 11, 1952. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2013, the plan had 40 active members, 4 terminated members eligible for vested benefits in the future, and 43 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions provided by the collective bargaining agreement between the township and its police officers are as follows:

Eligibility Requirements:

Normal Retirement	If hired prior to January 1, 2004, age 60 and 20 years of service. If hired after January 1, 2004, age 52 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary.

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:

Benefit equals 50% of final 36 months average salary, offset by Social Security disability benefits received for the same injury.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Tredyffrin Township 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/Or Unauthorized Pension Benefit Provisions

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: As disclosed in the prior audit report, pension benefits inconsistent and/or in excess of those authorized by Act 600 were being provided to police officers hired after January 24, 2001. In addition, the pension plan’s governing document, Ordinance No. HR-72, as amended, was not updated to reflect benefit changes contained in the collective bargaining agreement covering the calendar years 2004 through 2008.

During the prior audit period, the township and the police association representing the police officers of Tredyffrin Township negotiated a tiered benefit structure in the collective bargaining agreement covering the period January 1, 2009, to December 31, 2011, restricting pension benefits to those authorized by Act 600 for police officers who began employment after December 31, 2003. However, the township failed to restrict benefits to those authorized by Act 600 for police officers who began employment after January 24, 2001, and prior to December 31, 2003. In addition, the township failed to amend the plan’s governing document to eliminate the inconsistencies with the collective bargaining agreement. The inconsistent and/or unauthorized pension benefit provisions are noted below:

Benefit Provision	Ordinance No. HR-72, as amended	Collective Bargaining Agreement	Act 600 (as amended)
Normal retirement benefit	2.5% of final 60 months average salary times years of service, up to a maximum of 20 years, if hired after December 31, 1990, or 2.5% of final 36 months average salary times years of service, up to a maximum of 20 years, if hired before January 1, 1991.	...50% of the officer’s average monthly compensation during the 36 months immediately preceding his or her actual retirement date, provided he/she has completed 20 or more years of continuous service on that date and has reached the age required by the pension ordinance.	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.
Vesting	From 5 years to less than 10 years – 25%; From 10 years to less than 12 years – 50%; 12 or more years – 100%	100% vested in their accrued pension benefit after the completion of 12 years of service.	100% after the completion of 12 years of service.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Benefit Provision	Ordinance No. HR-72, as amended	Collective Bargaining Agreement	Act 600 (as amended)
Early retirement	Not provided	Officer with 20 or more years of service shall have the additional option of choosing an early benefit. For officers hired prior to January 1, 2004, the early retirement benefit shall be an actuarial equivalent of the Officer's accrued pension benefit reduced to reflect that it will commence on the effective date of the early retirement rather than the Officer's normal retirement date. The actuarial reduction shall be calculated using the actuarial assumptions reported in the most recently filed Act 205 report. The early retirement benefit shall become effective as of the date a written application is filed with the governing body or the date designated on the application, whichever is later.	An early retirement benefit may be provided to a member of the police force with 20 or more years of service who terminates employment prior to the completion of superannuation retirement age and service requirements and who files a written application for an early retirement benefit with the governing body of the municipality or regional police department. The early retirement benefit shall become effective as of the date the application is filed with the governing body or the date designated on the application, whichever is later, and shall be the actuarial equivalent of the partial superannuation retirement benefit calculated in accordance with Section 5(i) of Act 600.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Benefit Provision	Ordinance No. HR-72, as amended	Collective Bargaining Agreement	Act 600 (as amended)
Survivor's benefit	Upon the death of a member after his retirement date, benefits, if any, shall be paid to his contingent annuitant in accordance with the form of benefit payment selected by the member at retirement.	...effective January 1, 2004... a lifetime survivor's benefit to the surviving spouse, or if no spouse survives or if spouse subsequently dies, then any child until he or she is the age of 18 years; or any child until they reach the age of 23 years if attending college... calculated at 50 percent of the pension the member was receiving or would have been entitled to receive had he or she been retired at the time of death.	A lifetime survivor's benefit 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 at least 50 percent of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death.
A definition of attending college	Not provided	...which shall mean registered at an accredited institution of higher learning and carrying a minimum course load of 7 credit hours per semester.	Eligible children must be registered at an accredited institution of higher learning and must be carrying a minimum course load of 7 credit hours per semester.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Benefit Provision	Ordinance No. HR-72, as amended	Collective Bargaining Agreement	Act 600 (as amended)
Cost of living adjustments	...the lesser of 3% or the actual cost of living increase for the immediately preceding calendar year, based in either case upon such an increase in the Consumer Price Index for such calendar year.	For officers hired before January 1, 2004, the township shall provide an annual cost of living adjustment ...based on the consumer price index..., or any replacement index or successor thereto, up to 3% of the pension benefit, so long as the plan is actuarially sound.	The ordinance or resolution establishing the police pension fund may provide for a cost of living increase for members of the police force receiving retirement benefits. The cost of living increase shall not exceed the percentage increase in the Consumer Price Index for the year in which the police member last worked, shall not cause the total police pension benefits to exceed seventy-five per centum of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed thirty per centum. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Benefit Provision</u>	<u>Ordinance No. HR-72, as amended</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	2.5% of average compensation times years of service, up to a maximum of 20 years.	50% of average compensation of last 36 months offset by Social Security, if any.	The benefit must be in conformity with a uniform scale and fixed by the plan's governing document, but must be at least 50% of the member's salary at the time of disability, offset by any Social Security disability benefits.
Intervening military service credit	...up to three years prior to January 1, 1983, and up to four years thereafter.	Officers hired prior to January 1, 2004 shall obtain credit, for vesting and accrual purposes, for all United States military service, whether served before or during employment with the township, up to a maximum of four years.	Members shall receive credit for all intervening military service, if such person returns or has theretofore returned to his employment within six months after his separation from the service and has served as a police officer for at least six months prior to entering military service.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Benefit Provision	Ordinance No. HR-72, as amended	Collective Bargaining Agreement	Act 600 (as amended)
Actuarial equivalent retirement benefits	A member may elect to have his retirement benefit paid in various types of actuarial equivalent benefit forms, including a joint and survivor benefit, receiving a refund of his accumulated member contributions, with interest, along with an actuarially reduced monthly benefit.	An officer who terminates service before his/her retirement date, after completing 12 years, may elect as an option: Officers hired prior to January 1, 2004, may withdraw a lump-sum distribution of participant contributions together with interest compounded at the rate of 5% per year, and receive an actuarially reduced pension distribution of the residual value of their accrued pension benefit beginning on what would have been their normal retirement date.	Not authorized

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, on January 24, 2001, the Commonwealth Court of Pennsylvania issued its opinion in *Municipality of Monroeville v. Monroeville Police Department Wage Policy Committee*. Therein, the court held that Section 2962(c)(5) of the Home Rule Charter and Optional Plans Law, 53 Pa. C.S. § 2962(c)(5), “clearly precludes home rule municipalities from providing pension benefits different from those prescribed in general law including Act 600.”

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Until *Monroeville*, there was no definitive decision as to whether home rule municipalities were obliged to comply with applicable pension law. Accordingly, the department has decided that it will not penalize a home rule municipality for granting benefits not authorized by Act 600 to existing retirees or to individuals who began full-time employment before January 24, 2001 (the date *Monroeville* was issued). However, the department expects the township to restrict pension benefits to those authorized by Act 600 for all employees who began full-time employment on or after that date.

Cause: Plan officials were unable to effect compliance with the prior audit recommendation through the collective bargaining process and failed to establish adequate internal control procedures to ensure the plan's governing document was updated to be consistent with the collective bargaining agreement.

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

Furthermore, the provision of 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. Although the township did not receive state aid attributable to the excess pension benefits during the current audit period, the provision of unauthorized benefits could result in the receipt of excess state aid in the future or increase required municipal contributions to the plan.

Recommendation: We again recommend that municipal officials amend the plan's governing document, as necessary, to reflect all benefit obligations of the pension plan and eliminate the inconsistencies with the collective bargaining agreement. In addition, we again recommend that the township restrict pension benefits to those authorized by Act 600 for all employees who began full-time employment on or after January 24, 2001 (the date *Monroeville* was issued) upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to provide benefits in excess of those authorized by Act 600 to employees who began employment on or after January 24, 2001, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, municipal officials should consult with the plan's actuary to determine if Supplemental Actuarial Information Form AG-MP-1 should be prepared. If it is determined the excess benefits had an impact on the township's state aid allocation, the form should be submitted to the Department. Furthermore, after the submission of the form, the plan's actuary should contact the Department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Tredyffrin Township and Tredyffrin Township Police Association could not work to agree on revisions to the pension provisions in both the contract and the governing document since the last contract expired on December 31, 2011. Both parties entered into an Act 111 Interest Arbitration as a new contract could not be agreed upon after December 31, 2011 which is the leading factor as to why the previous findings have not been addressed. However, Tredyffrin Township and the Tredyffrin Township Police Association have recently completed an extension on the labor contract which runs through 2018. Both parties acknowledge that the pension provisions that are currently in the contract are not in agreement with the governing document and that both parties will work to correct this situation. The Township and Police Association plan to meet regularly in order to rectify this situation.

Auditor's Conclusion: We are concerned the township has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

TREDYFFRIN 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	\$ 21,796,109	\$ 23,162,097	\$ 1,365,988	94.1%	\$ 3,640,529	37.5%
01-01-11	23,485,030	26,677,149	3,192,119	88.0%	3,966,892	80.5%
01-01-13	25,226,786	30,045,483	4,818,697	84.0%	3,491,539	138.0%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses at 130 percent of market value. 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.

TREDYFFRIN 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.

TREDYFFRIN 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	\$ 722,220	100.0%
2009	759,474	100.0%
2010	419,525	100.0%
2011	431,458	116.0%
2012	558,265	100.0%
2013	559,588	100.0%

TREDYFFRIN 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	Not determinable
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	The lesser of 3%, or the actual cost of living increases for the preceding calendar year based on the Consumer Price Index.

TREDYFFRIN TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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