



**PATTON BOROUGH POLICE  
PENSION PLAN**

**CAMBRIA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2011 TO DECEMBER 31, 2013**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen**

**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Patton Borough  
Cambria County  
Patton, PA 16668

We have conducted a compliance audit of the Patton Borough 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Patton 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 Patton 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 findings further discussed later in this report:

Finding No. 1 – Pension Benefits In Excess Of Act 581

Finding No. 2 – Plan's Governing Document Fails To Contain A Service-Related Disability Benefit Provision

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 Patton Borough and, where appropriate, their responses have been included in the report.



EUGENE A. DEPASQUALE  
Auditor General

July 16, 2014

CONTENTS

|   | <u>Page</u> |
|---|-------------|
| Background.....   | 1           |
| Findings and Recommendations:   |             |
| Finding No. 1 – Pension Benefits In Excess Of Act 581.....  | 3           |
| Finding No. 2 – Plan’s Governing Document Fails To Contain A Service-Related<br>Disability Benefit Provision..... | 4           |
| Supplementary Information .....   | 6           |
| Report Distribution List .....  | 10          |

ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

## 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 Patton 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 581 - The Borough Code, Act of February 1, 1966 (P.L. 1656, No. 581), Article XI(f), Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 53 P.S. § 46131 et seq.

The Patton Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2013-04-01, which adopts a joinder agreement with PSABMRT, effective January 1, 2013, adopted pursuant to Act 581. The plan was established February 12, 1954. Active members are not required to contribute to the plan. As of December 31, 2013, the plan had 2 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits from the plan.

## **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           | Vesting is 100% after completion of 10 years of service. |

### Retirement Benefit:

Benefit is 50% of average monthly salary (salary averaged over the final 60 months of employment).

### Survivor Benefit:

|                               |  |
|-------------------------------|--|
| Before Retirement Eligibility | If eligible for vesting or retirement and dies prior to making benefit election, it is assumed that a 100% joint and survivor actuarial equivalent benefit was selected.                               |
| After Retirement Eligibility  | The normal form of benefit payment is a life annuity with 10 years guaranteed. The participant may elect an optional form of payment at retirement that is an actuarial equivalent of the normal form. |

### Service Related Disability Benefit:

None

PATTON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 - Pension Benefits In Excess Of Act 581**

Condition: The pension plan's governing document, Ordinance No. 2013-04-01, which adopts a joinder agreement effective January 1, 2013, grants a survivor benefit that is not authorized by Act 581. Section 7.02(A) of the joinder agreement states, in part:

A pre-retirement death benefit shall be provided to the surviving spouse or beneficiary, as applicable, of an eligible Participant who dies prior to retirement in accordance with the following criteria: (i) A Participant shall not be eligible for coverage by the pre-retirement death benefit unless or until the Participant dies after becoming eligible to vest or retire prior to making a benefit selection.

Criteria: Section 1131 of Act 581 states, in part:

All pension funds established under the provisions of this section shall be under the direction of the borough council, or such committee as it may designate, and shall be applied under such regulations as the council may by ordinance prescribe for the benefit of such members of the police force as shall receive honorable discharge there from by reason of age or disability and the families of such as may be injured or killed in the service (emphasis added). Any allowances made to those who are retired by reason of disability or age shall be in conformity with a uniform scale.

Cause: Borough officials were unaware that the survivor benefit contained in the plan's governing document exceeded the parameters authorized by Act 581.

Effect: 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 borough received state aid based on unit value 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.

PATTON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Recommendation: We recommend that the borough comply with Act 581 at its earliest opportunity to do so. Should the borough fail to restrict survivor benefits to those authorized by Act 581 at its earliest opportunity to do so, the costs associated with providing the unauthorized survivor benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the borough's future state aid allocations and submit this information to the Department. If it is determined the unauthorized benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Management's Response: Municipal officials agreed with the finding without exception.

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

**Finding No. 2 - Plan's Governing Document Fails To Contain A Service-Related Disability Benefit Provision**

Condition: The pension plan's governing document, Ordinance No. 2013-04-01, which adopts a joinder agreement effective January 1, 2013, does not contain a provision for a total and permanent service-related disability benefit, as required by Act 581. In addition, the Act 205 actuarial valuation report form 201C, dated January 1, 2013, filed with the Public Employee Retirement Commission, does not contain this provision.

Criteria: Section 1131 of Act 581 states, in part:

Where a police force of less than three members is being maintained, the borough may. . . establish a police pension fund. . . . All pension funds established under the provisions of this section shall be under the direction of the borough council. . . and shall be applied under such regulations as the council may by ordinance prescribe for the benefit of such members of the police force as shall receive honorable discharge there from by reason of age or disability. . . .

PATTON BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

With respect to boroughs employing less than three police officers, there is no statutory requirement that a police pension plan be established by the borough. However, since the borough established a police pension plan, the statutory language appears to mandate that the police pension plan provide a disability pension.

Further, while Section 1131 of Act 581 does not explicitly state that a police pension plan must provide only a service-related disability pension, police pension plans established under Act 600, in which similar language is used, must provide only a service-related disability pension, as interpreted by Ridley Park Police v. Borough of Ridley Park and further defined by Chirico v. Newtown Township.

Therefore, because of the similar language used in Act 600 and Act 581, it is the opinion of this Department that a borough employing fewer than three police officers which establishes a police pension plan is required, by statute, to provide for retirements due to service-related disability, as well as retirements due to age and service.

Cause: Borough officials were unaware of their responsibility to provide service-related disability benefits in police pension plans governed by Act 581.

Effect: The failure to provide a service-related disability benefit could result in a potential unrecognized liability to the plan or deny plan members benefits to which they are statutorily entitled.

Recommendation: We recommend that borough officials review the plan's governing document and take appropriate action to ensure that the plan's governing document provides for a service-related disability benefit.

Management's Response: Municipal officials agreed with the finding without exception.

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

PATTON 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, 2009, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        | (5)                       | (6)   |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability as a %<br>of Payroll<br>[(b-a)/(c)] |
| 01-01-09                       | \$ 216,647                             | \$ 90,006  | \$ (126,641)   | 240.7%                     | \$ 87,256                 | (145.1%)  |
| 01-01-11                       | 233,030                                | 119,308  | (113,722)  | 195.3%                     | 89,700                    | (126.8%)  |
| 01-01-13                       | 221,499                                | 243,041  | 21,542   | 91.1%                      | 97,749                    | 22.0%   |

Note: 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. 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.

PATTON 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.

PATTON 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 |
|------------------------|------------------------------|------------------------|
| 2008                   | None                         | N/A                    |
| 2009                   | \$ 1,039                     | 100.0%                 |
| 2010                   | 661                          | 100.0%                 |
| 2011                   | 1,415                        | 100.0%                 |
| 2012                   | 3,589                        | 100.0%                 |
| 2013                   | 5,689                        | 100.0%                 |

PATTON 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, 2013  |
| Actuarial cost method         | Entry age normal |
| Amortization method           | Level dollar     |
| Remaining amortization period | 15 years         |
| Asset valuation method        | Fair value       |
| Actuarial assumptions:        |                  |
| Investment rate of return     | 6.0%             |
| Projected salary increases    | 5.0%             |

PATTON BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Patton Borough Police Pension Plan  
Cambria County  
P.O. Box 175  
Patton, PA 16668

|                             |                   |
|-----------------------------|-------------------|
| The Honorable Gary Ceschini | Mayor             |
| Mr. John Crowell            | Council President |
| Ms. Donna M. Dunegan        | 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).