

# COMPLIANCE AUDIT

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## Cumru Township Police Pension Plan Berks County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

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July 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 Commissioners  
Cumru Township  
Berks County  
Mohnton, PA 19540

We have conducted a compliance audit of the Cumru Township Police Pension Plan for the period January 1, 2013 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. 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 findings 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 findings 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 the 2 plan members who retired during the current audit period , and through the completion of our fieldwork procedures, 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, 2013 actuarial valuation report was prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 2014 in accordance with Act 205 and whether selected information provided on this report 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.
- × We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Cumru Township contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ending December 31, 2013 which is 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 Cumru 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 procedures indicated that, in all significant respects, the Cumru 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 – Pension Benefits Not In Compliance With Act 600 Provisions

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. However, we are concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 77.8% as of January 1, 2011, to a ratio of 69.7% as of January 1, 2013**, which is the most recent data available. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Cumru 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.

June 23, 2015



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 Cumru 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- 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 Cumru Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 141, 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 May 2, 1967. Active members are required to contribute 3.5 percent of compensation to the plan. As of December 31, 2014, the plan had 21 active members, no terminated members eligible for vested benefits in the future, and 19 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2014, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 50 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 final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month.

### 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:

The greater of 50% of the member's salary or 50% of average monthly pay at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

CUMRU TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Cumru Township has complied with the prior audit recommendation concerning the following:

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation.

Township officials supplied the actuary with all the correct information that was consistent with the provisions contained in the collective bargaining agreement between the township and its police officers.

Partial Compliance With Prior Audit Recommendation

- Pension Benefit Not Authorized By Act 600

As disclosed in the prior 5 audit reports, the collective bargaining agreements between the township and its police offers provided for the inclusion of lump-sum payments for unused sick and vacation days that were not earned during the final 36 month averaging period for pension benefit calculations, and provided for cost-of-living adjustments for surviving spouses, which are not authorized by Act 600. In the collective bargaining agreement for the period January 1, 2012 to December 31, 2014, the township has eliminated these excess benefits for police officers hired on or after January 1, 2012. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing or future retirees in excess of those authorized by Act 600, 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. During the current audit period, vacation days that were not earned during the final 36 month averaging period were included in the pension benefit calculation of a member who entered the deferred retirement option plan (DROP) in January 2013. The DROP member is receiving excess benefits of approximately \$167 per month. Since the township received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to current retirees and future retirees on the township's future state aid allocations during subsequent audits of the plan which may require the township to reimburse any excess state aid received attributable to the excess pension benefits to the Commonwealth.

CUMRU TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendation

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

- Pension Benefits Not In Compliance With Act 600 Provisions

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions**

**Condition:** As disclosed in our prior audit report, the pension plan’s governing document contains benefit provisions that conflict with the collective bargaining agreement between the township and its police officers and which are not in compliance with Act 600.

Furthermore, as previously disclosed, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Member contributions	Member contributions shall be eliminated until an actuarial study indicates the plan will no longer be actuarially sound in the absence of member contributions. In making such a determination, the employer agrees to instruct the plan actuary that before any contributions would be requested from the members, all state funding which may be attributable to the police officers by applying the unit funding formula in Act 205 shall have been allocated to the pension plan to offset any financial obligation.	The 2015-2018 collective bargaining agreement (CBA) states member pension contributions shall be increased to 4.00%. Based on the 2015 Act 205 valuation, the Association will determine whether member contributions may be reduced. Based on future Act 205 valuations, the Association will determine whether the then-member contributions may be increased, decreased or remain the same.  The maximum contribution rate for the term of this Award and agreement shall be 4.00%.	If covered by Social Security, members shall pay into the fund, monthly, an amount determined as follows: (1) if the pension plan provides for no Social Security offset, 5% of total compensation. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Pre-vesting death benefit	A refund of the member's contributions to the Pension Fund shall be paid to his designated beneficiary if living or, if none is living, then to his estate.	Not addressed	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of eighteen years, or, if attending college, under or attaining the age of twenty-three years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member's investment in the pension fund, unless the member has designated another beneficiary for this purpose.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Survivor's benefit	The widow, or if no widow survives or remarries, then the child or children under the age of eighteen, shall be entitled to receive a pension calculated at the rate of fifty percentum (50%) of the pension the member was receiving or would have been receiving had he been retired at the time of his death.	Upon the participant's death, the surviving spouse, or the dependent children under the age of 19, or under the age of 23 and attending college, shall receive a benefit equal to 50% of the officer's pension.	A lifetime survivor's benefit must be provided 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 no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. ("Attending college" shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	A monthly retirement benefit for life equal to fifty (50%) percent of the monthly average salary earned by such member during the last sixty months of his employment.	A disability pension equal to 50% of the participant's salary at the time the disability is incurred.	The benefit must be in conformity with a uniform scale and fixed by the plan's governing document at no less than 50% of the member's salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

In addition, the collective bargaining agreement contains provisions which are in compliance with Act 600 but are not contained in the governing document, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service increment	Not addressed	Retiree shall receive a pension increase of one hundred dollars (\$100) per month for each completed year of service in excess of twenty-five years up to a maximum of five hundred dollars (\$500) per month after five completed years of service in excess of twenty-five years (30 years of service).	\$100 per month for each completed year of service in excess of 25 years up to a maximum of \$500 per month after 5 completed years of service in the excess of 25 years.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Cost of living adjustments	Not addressed	Retiree shall be entitled to cost of living adjustments (30% cap)	The cost of living increase shall not exceed the percentage increase in the Consumer Price Index from the year in which the police member last worked, shall not cause the total police pension benefits to exceed 75% of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed 30%. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

Criteria: The pension plan’s governing document and the collective bargaining agreement should contain consistent provisions that are in compliance with Act 600, as amended.

Cause: Municipal officials failed to ensure that the plan’s governing document and the collective bargaining agreement contained consistent provisions that are in compliance with Act 600, as amended. In addition, municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to ensure the plan's governing document and the collective bargaining agreement contain consistent provisions which are in compliance with Act 600, as amended, at their earliest opportunity to do so.

Management's Response: Since disclosure in the prior audit report, municipal officials indicated that prior contract negotiations with the police association concluded with a short settlement agreement which corrected some things for new hires as of January 1, 2012 (Section 3.c.1.- 3 of the settlement agreement). And although the Township initiated the process to get a consolidated agreement and, eventually, a new ordinance, a consolidated agreement was not negotiated and the process towards a new ordinance was not completed.

During contract negotiations with the police association in 2014, the Township attempted to address the matter by proposing pension demands which the Township Manager composed based on the last compliance audit. The negotiation process ended up in arbitration. During the arbitration hearing, the Township asked for these items to be included in the award, in order to be compliant with Act 600. The majority of the arbitration panel did not address these issues at all in the arbitration award.

A consolidated agreement has been proposed. The Township is still reviewing it. When a consolidated agreement is finally signed, it is the Township Manager's hope that the Township would address the ordinance.

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

CUMRU 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)
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)
01-01-09	\$ 7,691,387	\$ 9,907,864	\$ 2,216,477	77.6%
01-01-11	8,160,227	10,492,911	2,332,684	77.8%
01-01-13	8,540,541	12,320,381	3,779,840	69.3%

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 over a 5-year averaging period subject to a corridor between 70 to 130 percent of the market value of assets. The market values of the plan's assets at 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period subject to a corridor between 80 to 120 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.

CUMRU 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.

CUMRU 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
2009	\$ 291,874	100.0%
2010	292,688	100.0%
2011	462,169	100.0%
2012	434,125	100.0%
2013	579,388	100.0%
2014	529,028	100.0%

CUMRU TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 NOTES TO SUPPLEMENTARY SCHEDULES  
 (UNAUDITED)

The information presented in the 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	13 years
Asset valuation method	Plan assets are valued using the method used in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.5% per year

CUMRU TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Cumru Township Police Pension Plan  
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Mr. Tony Sacco	Chairman, Board of Township Commissioners
Ms. Jeanne Johnston	Township Manager
Ms. Peggy Carpenter	Chief Administrative Officer

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