

ALBION BOROUGH POLICE PENSION PLAN

ERIE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

BACKGROUND

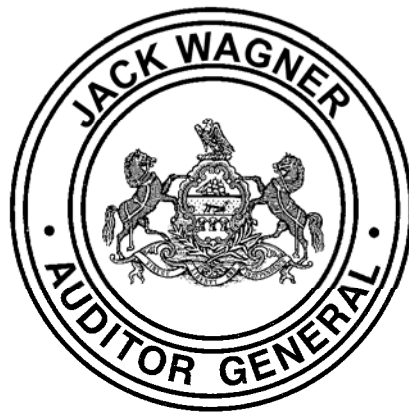
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Albion 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 Albion Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 02-2002, which adopts a PSABMRT joinder agreement, effective December 31, 2002, adopted pursuant to Act 581. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers.



The Honorable Mayor and Borough Council
Albion Borough
Erie County
Albion, PA 16401

We have conducted a compliance audit of the Albion Borough Police Pension Plan for the period January 1, 2006, to December 31, 2007. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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. Albion Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Albion Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough's compliance with those requirements. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Albion 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 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Finding No. 2 – Cost Of Living Adjustments Not Authorized By The Plan's Governing Document

Finding No. 3 – Pension Benefits In Excess Of Act 581

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Albion Borough and, where appropriate, their responses have been included in the report.

January 21, 2009

JACK WAGNER
Auditor General

ALBION BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Rescission Of Prior Audit Recommendation

The following prior audit recommendation has been rescinded:

- Improper Surrender Of Allocated Insurance Contracts

Based on further information received from the borough, it was determined that the retiree is being paid in accordance with the terms of the contract in effect at the time of his retirement; therefore, the prior audit recommendation has been rescinded.

ALBION BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATION

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: The borough certified ineligible part-time wages of \$6,122 for a police officer in 2007, and ineligible part-time wages of \$13,440 for 3 nonuniformed employees in 2007 on Certification Form AG 385. In addition, the borough failed to certify 1 eligible nonuniformed employee and understated payroll by \$11,457 in 2008 on Certification Form AG 385.

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

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Since the borough's state aid allocation was based on pension costs, the effect of the incorrect certification of pension data on the borough's state aid allocation is identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Normal Cost</u>	<u>Payroll Overstated (Understated)</u>	<u>State Aid Underpayment</u>
2007	Police	15.79%	\$ 6,122	\$ 967
	Nonuniformed	10.99%	13,440	<u>1,477</u>
	Total			<u>\$ 2,444</u>
2008	Nonuniformed	10.05%	(11,457)	<u>(1,151)</u>
Net Overpayment Of State Aid				<u>\$ 1,293</u>

ALBION BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATION

Finding No. 1 – (Continued)

In addition, since the borough used the overpayments of state aid to pay the 2007 minimum municipal obligations (MMOs) due to the police and nonuniformed pension plans, if the reimbursement to the Commonwealth is made from the pension plans, the plan's MMOs will not be fully paid.

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$1,293, 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, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that, in the future, plan officials comply 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 and/or nonuniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plans with interest, at a rate earned by the pension plans.

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

Finding No. 2 – Cost Of Living Adjustments Not Authorized By The Plan's Governing Document

Condition: Municipal officials are providing cost-of-living adjustments to retired officers that are not authorized by the pension plan's governing document.

Criteria: Section 4.05 of the pension plan's PSABMRT joinder agreement, adopted by Ordinance No. 02-2002, states:

This plan shall not provide for a cost-of-living increase as set forth in section 4.05 of Chapter III of the Master Plan and Trust.

ALBION BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATION

Finding No. 2 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure retirees were only receiving benefits authorized by the plan's governing document.

Effect: The plan is paying pension benefits to 3 retired officers in excess of those authorized by the plan's governing document.

Recommendation: We recommend that municipal officials either adjust the pension benefits of the retirees whose benefits were not determined in accordance with the provisions of the plan's governing document, or amend the plan's governing document to provide for cost-of-living increases.

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

Finding No. 3 – Pension Benefits In Excess Of Act 581

Condition: The pension plan's PSABMRT joinder agreement, effective December 31, 2002, grants a survivor benefit option that is not authorized by Act 581. Section 5.01 of the joinder agreement provides that in lieu of the normal life benefit form, a participant may elect a 50 percent contingent annuitant benefit.

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 therefrom 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: Municipal officials failed to establish adequate internal control procedures to ensure that the plan's benefit structure was in compliance with Act 581.

ALBION BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATION

Finding No. 3 – (Continued)

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. The provision of unauthorized pension benefits may also result in the receipt of excess state aid and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

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 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 plan's future state aid allocations and submit this information to the department.

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

ALBION 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, 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)]
01-01-03	\$ 197,077	\$ 201,225	\$ 4,148	97.9%	\$ 61,676	6.7%
01-01-05	205,669	216,810	11,141	94.9%	67,350	16.5%
01-01-07	192,679	189,314	(3,365)	101.8%	36,307	(9.3%)

ALBION 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. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

ALBION BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

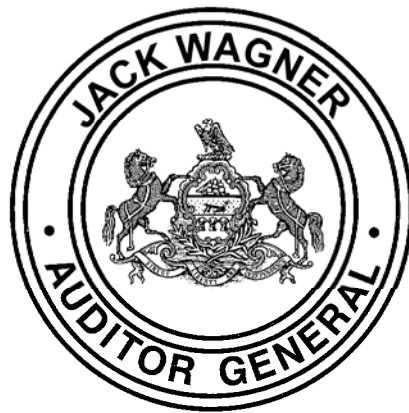
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	\$ 4,801	100.0%
2003	2,053	106.2%
2004	10,160	103.6%
2005	9,164	100.0%
2006	4,489	100.0%
2007	5,122	109.2%

ALBION 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, 2007
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	None assumed



ALBION BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Albion Borough Police Pension Plan
Erie County
26 Smock Avenue
Albion, PA 16401

The Honorable Jeanne Bright	Mayor
Mr. Scott Cleaver	Council President
Ms. Rebecca Fehr	Secretary
Ms. Colleen Deer	Mockenhaupt Benefits Group

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditor.gen.state.pa.us.