

BRIDGEWATER BOROUGH POLICE PENSION PLAN

BEAVER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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BACKGROUND

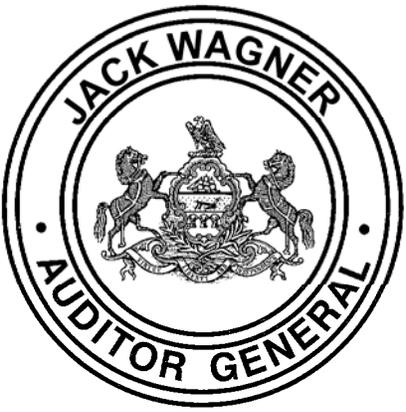
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state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

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 Bridgewater 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.
- 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 Bridgewater Borough Police Pension Plan is a single-employer pension plan locally controlled by the provisions of Ordinance No. 417, adopted pursuant to Act 581. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. Active members are not required to contribute to the plan. The municipality maintains a pension plan with no defined contributions and variable pension or retirement benefits provided, usually through discretionary purchases of insurance or annuity contracts.



The Honorable Mayor and Borough Council
Bridgewater Borough
Beaver County
Bridgewater, PA 15009

We have conducted a compliance audit of the Bridgewater Borough Police Pension Plan for the period January 1, 2007, to December 31, 2009. 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. The borough has elected to purchase allocated insurance contracts to fund the pension benefits for plan members. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 25 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets. Consequently, the plan has no reportable assets.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Bridgewater 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 objectives, 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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Bridgewater 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 – Noncompliance With Prior Audit Recommendation – Failure To Fund Members' Accounts
- Finding No. 2 – Failure To Deposit State Aid Into An Eligible Pension Plan
- Finding No. 3 – Pension Plan Not In Compliance With Act 600 Provisions
- Finding No. 4 – Failure To File Actuarial Valuation Report

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

May 4, 2010

JACK WAGNER
Auditor General

BRIDGEWATER BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Bridgewater Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Fund Members' Accounts

BRIDGEWATER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Fund Members’ Accounts

Condition: As disclosed in the prior audit report, the borough failed to fund the accounts of two eligible members of the police pension plan who became full-time police officers in 2006. In addition, during the current audit period, the borough failed to fund the accounts of the two eligible members for the year 2008, and two eligible members for the year 2009.

Criteria: Ordinance No. 417, at Section V states:

“Participant” shall mean any individual appointed as a full-time officer by Council of the Borough of Bridgewater and employed by the Borough as a member of the Bridgewater Police Department.

In addition, Ordinance No. 417, at Section VI states:

The Borough of Bridgewater will maintain a pension fund to provide pension benefits through the discretionary purchase of annuity contracts as may be required to provide retirement, disability and death benefits for its full-time police officers.

Cause: Borough officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation. Furthermore, the borough failed to deposit its state aid allocations received for the years 2008 and 2009 into an eligible pension plan (See Finding No. 2).

Effect: The failure to properly fund the members’ accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan’s governing document.

In addition, due to the borough’s failure to properly fund the referenced member’s accounts, the borough must now pay interest on the delinquent contributions.

Recommendation: We again recommend that the borough properly fund the referenced member’s accounts, plus include interest on all the delinquent contributions due.

In addition, we again recommend the borough establish adequate internal control procedures to ensure the proper funding of all members’ accounts in the future.

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

BRIDGEWATER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Deposit State Aid Into An Eligible Pension Plan

Condition: The municipality did not deposit its 2008 and 2009 state aid allocations into an eligible pension plan. The municipality received its 2008 and 2009 state aid allocations in the amounts of \$11,475 and \$9,666, respectively, on September 23, 2008, and September 21, 2009, respectively; however, as of the date of this audit report, the state aid allocations were not deposited into an eligible pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The borough failed to establish adequate internal control procedures to ensure the 2008 and 2009 state aid allocations were deposited into an eligible pension plan in accordance with Act 205 requirements.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality deposit the 2008 and 2009 state aid allocations, totaling \$21,141, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, into an eligible pension plan. A copy of the interest calculations must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid is deposited into an eligible pension plan within 30 days of receipt by the municipal treasurer.

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

BRIDGEWATER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Pension Plan Not In Compliance With Act 600 Provisions

Condition: On January 1, 2009, the borough hired its third full-time police officer. While a municipality that employs fewer than three full-time police officers may elect to establish a police pension plan pursuant to Act 600, upon hiring a third full-time police officer, the municipality must ensure the plan is established pursuant to Act 600 provisions. However, if police officers were given rights prior to the hiring of a third full-time police officer under their existing pension plan that differ from Act 600, the fact that a new plan is adopted because of the growth of the police department cannot in any way effect their existing benefits, and they are in effect “grandfathered” for purposes of age and service for retirement purposes. Since, the pension plan’s governing document, Ordinance No. 417, was not adopted pursuant to Act 600, it contains benefit provisions that are not in compliance with Act 600.

Consequently, municipal officials have not formally provided for the following mandated provisions:

- Eligibility for plan membership;
- Members’ contributions;
- Eligibility for retirement benefits; and
- The benefit formula.

Criteria: Section 1(a)(1) of Act 600 states, in part:

Each borough, town and township. . . maintaining a police force of three or more full-time members shall. . . establish, by ordinance or resolution, a police pension fund. . . .

Since the borough employs three full-time police officers, the plan’s governing document should be in compliance with Act 600, as amended.

Cause: Municipal officials were unaware that since they hired a third full-time police officer the plan had to be in compliance with Act 600, as amended.

Effect: 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.

BRIDGEWATER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan's benefit structure into compliance with Act 600, as amended, at their earliest opportunity to do so. The borough must also ensure that the existing benefits of the two police officers who were previously hired are not in any way diminished.

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

Finding No. 4 – Failure To File Actuarial Valuation Report

Condition: Actuarial valuation report form 201A for the police pension plan with a valuation date of January 1, 2009, was not submitted to the Public Employee Retirement Commission (PERC) by the March 31, 2010, deadline, as required by Act 205 and remained delinquent through the date of this audit report.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 states:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

BRIDGEWATER BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Cause: The borough failed to establish adequate internal control procedures to ensure the January 1, 2009, actuarial valuation report was filed timely in accordance with Act 205 requirements.

Effect: Future state aid allocations will be withheld until the plan's actuarial valuation report is filed. In addition, the borough may receive a reduced state aid allocation since the report was not filed in a timely manner.

Recommendation: We recommend that the municipality take immediate action to complete and file the plan's January 1, 2009, actuarial valuation report with PERC.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future actuarial valuation reports are filed timely in accordance with Act 205 requirements.

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

BRIDGEWATER BOROUGH POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

BRIDGEWATER BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF STATE AID
AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid Deposited	Employer Contributions
2004	\$ 8,092	None
2005	9,079	\$ 828
2006	None	None
2007	6,875	None
2008	None	None
2009	None	None

BRIDGEWATER BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Bridgewater Borough Police Pension Plan
Beaver County
199 Boundry Lane
Bridgewater, PA 15009

The Honorable Heidi Paul	Mayor
Mr. Charles Bates	Council President
Ms. Vickie L. Reddinger	Secretary

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.auditorgen.state.pa.us.