

CUMRU TOWNSHIP POLICE PENSION PLAN

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



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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 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.



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, 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 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. Cumru Township contracted with an independent certified public accounting firm for annual audits of its basic 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 an internal control structure 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. To assist us in planning and performing our audit, we obtained an understanding of the township's internal control structure as it relates to the township'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 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 findings further discussed later in this report:

- Finding No. 1 – Noncompliance with Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 2 – Noncompliance with Prior Audit Recommendation – Pension Benefits Not Authorized By Act 600
- Finding No. 3 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 4 – Pension Benefits Modified Without Prior Cost Estimate
- Finding No. 5 – Improper Pension Benefit Calculation

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 Cumru Township and, where appropriate, their responses have been included in the report.

December 19, 2008

JACK WAGNER
Auditor General

CUMRU TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Cumru Township has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefits Not In Compliance With Act 600 Provisions
- Pension Benefits Not Authorized By Act 600

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – 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.

Also, on April 17, 2002, 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>
Killed-in-service benefit	Not addressed	Family shall receive 100% of the officer’s salary at the time of death.	Pensions for the families of members killed in service shall be calculated at 100% of the member’s salary at the time of death.
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.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (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
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
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.	<p>The 2004-2007 CBA states “regardless of the funding status of the police pension fund as evidenced on the January 1, 2003 or the January 1, 2005 actuarial reports prepared pursuant to Act 205, police payroll deduction contributions to the police pension plan shall be as follows:</p> <p style="margin-left: 40px;">2004 – 1.0% 2005 – 2.5% 2006 – 2.5% 2007 – 2.5%</p> <p>The 2008-2011 CBA states “regardless of the funding status of the police pension fund as evidenced on the January 1, 2007 or the January 1, 2009 actuarial reports prepared pursuant to Act 205, police payroll deduction contributions to the police pension plan shall be three and one half percent (3.5%) for the duration of the contract.</p>	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
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent provisions that are in compliance with Act 600, as amended.

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. Furthermore, the provisions contained in the plan's governing document and the collective bargaining agreement regarding member contributions should be consistent and in compliance with Act 600, as amended.

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: Municipal officials agreed with the finding without exception.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not Authorized By Act 600

Condition: As disclosed in our prior audit report, the CBA between the township and its police officers for the period January 1, 2004, to December 31, 2007, and the current CBA for the period January 1, 2008, to December 31, 2011, contain benefit provisions that are not authorized by Act 600.

Section 2 of Article 22 states, in part:

The employee shall receive twelve (12) non-accruable sick leave days per year. The employee shall receive pay equal to 10 hours, one day's pay, for each day that remains unused at year end. The employee shall receive an additional twelve (12) accruable sick leave days per year, for a maximum of one-hundred twenty five (125) days accumulation.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Article 21 states, in part:

The payments for accrued vacation, longevity, personal holidays, compensatory overtime and reimbursable unused sick leave days shall be applied to the calculation of the average monthly pay for pension purposes.

In addition, Article 26, Section H of the collective bargaining agreement provides for cost-of-living adjustments for surviving spouses.

Criteria: Section 5(c) of Act 600 states, in part:

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.

Although Act 600 does not define “salary,” the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum payments for leave that was not earned during the pension computation period.

Furthermore, Section 5(g)(1) of Act 600 states:

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 from 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. (Emphasis added)

Cause: The township failed to remove the unauthorized provisions from the current collective bargaining agreement.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Although no unauthorized pension benefits were awarded during the current audit period, providing unauthorized pension benefits could increase the plan's future pension costs and reduce the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. The provision of unauthorized pension benefits could also increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again 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, upon the renewal, extension, or renegotiation of the current collective bargaining agreement.

Management's Response: Municipal officials agreed with the finding with the understanding that the bargaining unit may disagree.

Finding No. 3 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2008, as required by Act 205. The MMO determined by the municipality understated the normal cost percentage and the amortization contribution requirement. Based upon an estimate prepared by this department, the municipality had an unpaid 2008 MMO balance of \$38,569.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Furthermore, Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data used in the MMO determination.

Effect: The proper determination of the plan’s MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that the municipality pay the MMO due to the police pension plan for the year 2008, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

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

Finding No. 4 – Pension Benefits Modified Without Prior Cost Estimate

Condition: The municipality modified the current collective bargaining agreement to reduce the time period for pension benefit determinations from the final 60 months of employment to the final 36 months of employment without a cost estimate of the effect of the change on the plan, as required by Act 205. Furthermore, the plan’s governing document was not updated to reflect this change.

Criteria: Section 305(a) of Act 205 states:

Prior to the adoption of any benefit plan modification by the governing body of the municipality, the chief administrative officer of each pension plan shall provide to the governing body of the municipality a cost estimate of the effect of the proposed benefit plan modification.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Furthermore, Section 305(b) of Act 205 states, in part:

If the pension plan is a defined benefit plan which is self-insured in whole or in part, the cost estimate shall be prepared by an approved actuary. . . .

Cause: Plan officials did not obtain a cost estimate of the plan’s benefit modifications because they were unfamiliar with the applicable Act 205 guidelines.

Effect: Benefit modifications made without a prior cost estimate could have a negative effect on the plan’s ability to meet its current or future obligations. Act 205 requires that any unfunded liability resulting from a benefit change for active members must be amortized in 20 years and for retired members in 10 years.

Recommendation: We recommend that all future benefit modifications should be preceded by a cost estimate which has been prepared by an approved actuary. The chief administrative officer of the pension plan should then present the cost estimate to the governing body of the municipality for its review prior to the adoption of the benefit modification.

Management Response: Municipal officials agreed with the finding without exception

Finding No. 5 – Improper Pension Benefit Calculation

Condition: A retired member of the pension plan had his pension benefit incorrectly determined because municipal officials used net pay instead of gross pay for one pay period.

Criteria: Ordinance No. 141, at Section 705, states, in part:

Normal Retirement Benefit - Each participating member who retires and is entitled to normal retirement benefits, shall receive a monthly retirement benefit for life equal to fifty percent of the monthly average salary earned by such participating member during the last (60) months of his employment on the police force.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan’s governing document.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Effect: The retiree is receiving \$16 per month less than what he is entitled to pursuant to the plan's governing document.

Recommendation: We recommend that municipal officials adjust the retiree's pension benefit in accordance with the provisions contained in the plan's governing document and pay the amounts due to the retiree retroactive to the date of his retirement.

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

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, 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	\$ 5,091,305	\$ 5,984,881	\$ 893,576	85.1%	\$ 1,362,215	65.6%
01-01-05	6,420,081	7,112,435	692,354	90.3%	1,561,489	44.3%
01-01-07	7,607,618	8,121,373	513,755	93.7%	1,577,277	32.6%

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.

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.

CUMRU TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

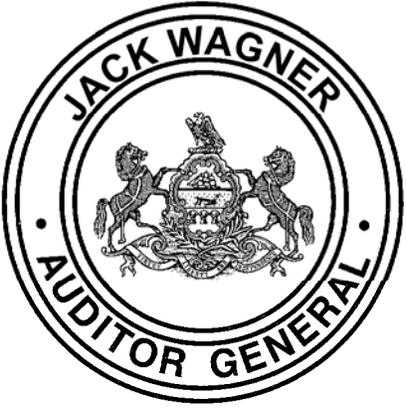
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	None	N/A
2003	\$ 138,529	100.2%
2004	154,237	103.0%
2005	340,095	100.0%
2006	252,827	100.0%
2007	255,733	100.0%

CUMRU 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	26 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.5%



CUMRU TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Cumru Township Police Pension Plan
Berks County
1175 Welsh Road
Mohnton, PA 19540

Mr. Barry Rohrbach	President, Board of Township Commissioners
Mr. James Sigworth	Township Manager
Ms. Jeanne Johnston	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.