

FOLCROFT BOROUGH POLICE PENSION PLAN

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, 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 Folcroft 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 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 Folcroft Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 958, adopted pursuant to Act 600. 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
Folcroft Borough
Delaware County
Folcroft, PA 19032

We have conducted a compliance audit of the Folcroft Borough Police Pension Plan for the period January 1, 2005, 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 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.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Folcroft 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 Folcroft 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Pension Benefit
Not Authorized By Act 600 And The Collective Bargaining
Agreement

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

May 30, 2008

JACK WAGNER
Auditor General

FOLCROFT BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Folcroft Borough has complied with the prior audit recommendation concerning the following:

- Improper Benefit Payments

The borough and the police officer's union mutually agreed to amend the provisions of the collective bargaining agreement to eliminate the excess benefit provisions for future retirees. However, excess benefits are still being paid to existing retirees. Since the municipality 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 on the plan's future state aid allocations.

Noncompliance With Prior Audit Recommendation

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

- Pension Benefit Not Authorized By Act 600 And The Collective Bargaining Agreement

FOLCROFT BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600 And The Collective Bargaining Agreement

Condition: As disclosed in our prior audit report, plan officials provided a pension benefit not authorized by Act 600 and the collective bargaining agreement between the borough and its police officers by including accumulated unused sick leave that was earned outside the pension computation period in the determination of the final average salary used to calculate monthly pension benefits for a police officer who retired during 2005. The collective bargaining agreement also limited the buy-back of unused sick leave to 95 days and specified that payment for the sick leave buy-back shall be excluded from the officer's salary for the purpose of computing the officer's pension. However, the aforementioned retiree had a payment for 110 days of unused sick leave included in his pension calculation.

Section 4.01 of Ordinance 958 states, in part:

...The monthly pension to which such retired member shall be entitled to under this plan shall be equal to 50% of such member's average applicable compensation.

Section 1.03 of Ordinance 958 further defines average applicable compensation as:

...For purpose of computing average applicable compensation, actual monthly earnings shall be based on W-2 earnings in which all forms of earnings are derived from the terms and conditions of the employee's employment.

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.

FOLCROFT BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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, the collective bargaining agreement section on Sick Leave and Severance Pay, states, in Part:

...At retirement, either after proper service or for disability, the police officer shall receive as severance pay a sum equal to one hundred (100%) of his accumulated sick leave, not to exceed ninety-five (95) days. Severance payments shall not be included in the calculation of an officer’s pay over his last thirty-six (36) months for the purpose of computing his pension.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the benefit provisions contained in the plan’s governing document were consistent with Act 600 and the collective bargaining agreement.

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.

Recommendation: We again recommend that pension benefits be calculated in accordance with Act 600 and the provisions contained in the collective bargaining agreement. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the unauthorized portion of such 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 benefit on the plan’s future state aid allocations and submit this information to the department.

We also recommend that the borough take appropriate action to ensure the benefit provisions contained in the plan’s governing document and the collective bargaining agreement are consistent and in compliance with Act 600.

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

FOLCROFT 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	\$ 2,976,296	\$ 2,887,064	\$ (89,232)	103.1%	\$ 581,903	(15.3%)
01-01-05	3,424,245	3,447,148	22,903	99.3%	626,895	3.7%
01-01-07	3,699,780	3,758,176	58,396	98.4%	619,437	9.4%

FOLCROFT 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.

FOLCROFT BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

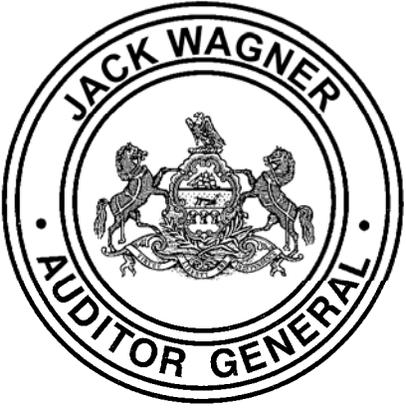
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	None	N/A
2003	\$ 30,547	118.5%
2004	32,285	144.3%
2005	84,941	100.0%
2006	61,792	100.0%
2007	68,262	100.0%

FOLCROFT 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	Level dollar
Remaining amortization period	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	3.0% increase per annum



FOLCROFT BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Folcroft Borough Police Pension Plan
Delaware County
1555 Elmwood Avenue
Folcroft, PA 19032

The Honorable Charles P. Vival	Mayor
Ms. Marianne French	Council President
Ms. Judith Serratore	Borough Manager

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.