

**HEIDELBERG TOWNSHIP POLICE PENSION PLAN**

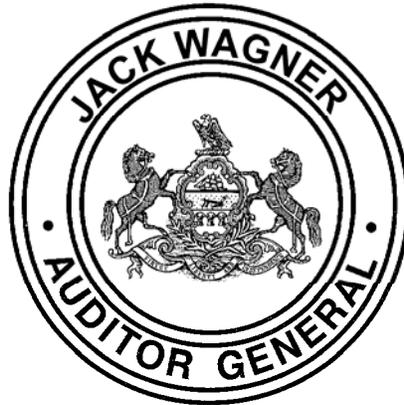
**LEBANON COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2004, TO DECEMBER 31, 2006**





**HEIDELBERG TOWNSHIP POLICE PENSION PLAN**

**LEBANON COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2004, TO DECEMBER 31, 2006**



## CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600 .....	6
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions .....	7
Finding No. 3 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation .....	10
Supplementary Information .....	11
Report Distribution List .....	15



## BACKGROUND

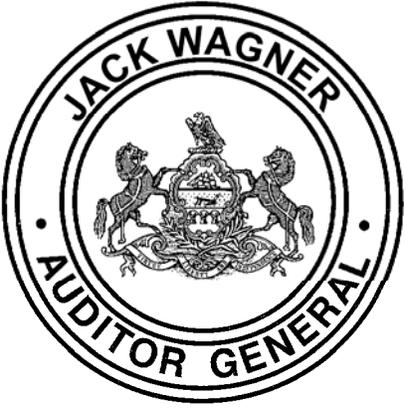
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, 53 P.S. §895.101, et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to 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 Heidelberg 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 600 - Police Pension Fund Act, Act of May 29, 1956, (P.L. (1955) 1804, No. 600), as amended, 53 P.S. § 767, et seq.

The Heidelberg Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 139, as amended, adopted pursuant to Act 600.



Board of Township Supervisors  
Heidelberg Township  
Lebanon County  
Schaefferstown, PA 17088

We have conducted a compliance audit of the Heidelberg Township Police Pension Plan for the period January 1, 2004, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. Heidelberg 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.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Heidelberg 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 Heidelberg 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 Benefit Not Authorized By Act 600
- Finding No. 2 – Noncompliance With Prior Audit Recommendation - Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 3 – Noncompliance With Prior Audit Recommendation - Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

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

May 9, 2007

JACK WAGNER  
Auditor General

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Heidelberg 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 Benefit Not Authorized By Act 600
- Pension Benefits Not In Compliance With Act 600 Provisions
- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600

Condition: As disclosed in our prior audit report, the pension plan’s governing document grants a normal retirement benefit that is not authorized by Act 600. Section 8 of Resolution No. 139, as amended, states, in part:

A participating member who is eligible to retire at age 55 and upon completion of 25 years continuous service in the township police force, as herein provided, may be permitted to continue in the employ of the township police force after he or she has qualified for normal retirement, at the sole discretion of the township board of supervisors. Such extended service, if permitted, shall be allowed on an annual basis only. However, the participating member shall not be entitled to receive such pension benefits until he or she goes into actual retirement. He or she shall receive pension benefits in a higher amount to reflect the actuarial equivalent of the amount that would have been paid at normal retirement date.

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.

In addition, Section 5(f) of Act 600 states:

Any borough, town, township or regional police department may establish and pay length of service increments for years of service beyond twenty-five years for each completed year of service in excess of twenty-five years, not to exceed 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. Such length of service increments may be paid in addition to other monthly pension or retirement allowances.

Cause: Due to recent turnover of the township officials, the new officials were unaware that the plan’s government document contains a normal retirement benefit provision that is not in compliance with Act 600.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: The plan is paying pension benefits of \$109 per month to a retiree in excess of those authorized by Act 600.

Providing unauthorized pension benefits could increase the plan’s pension costs and reduce the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the township did not receive state aid for its pension plans during the current audit period, it did not receive state aid allocations attributable to the excess pension benefits provided. However, in the future, the increased costs to the pension plan as a result of the excess pension benefits could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the township eliminate all benefits not authorized by Act 600 at its earliest opportunity to do so. To the extent that the township has already obligated itself to pay benefits to existing 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, 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 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. The township is in the process of amending the plan’s government document to comply with Act 600.

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: 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>Act 600 (as amended)</u>
Killed in service benefit	None	Pensions for the families of members killed in service shall be calculated at 100% of the member’s salary at the time of death.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Survivor's benefit	None	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.)
Pre-vesting death benefit	If such discontinuance is due to the death of participating member, then the refund of his or her said contributions to the Pension Fund shall be paid to his or her designated beneficiary, if living, or if none is living, then to his or her estate.	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.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	Each member entitled to disability pension benefits shall receive a monthly disability benefit for the duration of his or her disability, in an amount equal to fifty (50) percent of his or her average monthly compensation earned by such member during the last sixty (60) months of his or her employment on the police force, or in the event such member shall not have worked a total of sixty (60) months, the total number of months so worked.	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.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the police pension plan's benefit structure should be in compliance with Act 600, as amended.

Cause: Due to recent turnover of the township officials, the township failed to update the plan's governing document. Furthermore, the new officials were not aware of the 2002 amendment to Act 600 or their responsibility to update the plan's benefit structure, as necessary, to comply with it.

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.

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, at their earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception. The township is in the process of amending the plan's government document to comply with Act 600.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Condition: Actuarial valuation reports form 201C, with valuation dates of January 1, 2003, and January 1, 2005, submitted to the Public Employee Retirement Commission, contained incorrect information. The information was based on data supplied by the municipality to the plan's actuary.

The municipality supplied the following incorrect information to the plan's actuary:

- If an active member is killed-in-service, the surviving spouse, or eligible child, receive a monthly pension of 100% of the member's monthly salary at time of death. If member is eligible for retirement, the benefit is 50% of pension.
- Normal retirement criteria of age 60 and 20 years of service.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: The discrepancies in the data occurred because plan officials did not verify that the information was consistent with the plan's governing document.

Effect: Although the township did not receive state aid for its pension plans during the audit period, the submission of incorrect data to the plan's actuary may result in the township receiving an incorrect allocation of state aid in the future.

Recommendation: We again recommend municipal officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

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

HEIDELBERG 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, 2001, 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)]
01-01-01	\$ 883,214	\$ 285,538	\$ (597,676)	309.3%	\$ 45,938	(1,301.0%)
01-01-03	786,331	292,663	(493,668)	268.7%	93,746	(526.6%)
01-01-05	885,121	298,496	(586,625)	296.5%	97,802	(599.8%)

HEIDELBERG 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.

HEIDELBERG 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
2001	None	N/A
2002	None	N/A
2003	None	N/A
2004	None	N/A
2005	None	N/A
2006	None	N/A

HEIDELBERG 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, 2005
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 *	7.0%
Projected salary increases *	6.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Heidelberg Township Police Pension Plan  
Lebanon County  
P.O. Box 188  
Schaefferstown, PA 17088

Mr. Donald Gettle                      Chairman, Board of Township Supervisors

Ms. Candie Johnson                      Assistant Secretary/Treasurer

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](http://www.auditorgen.state.pa.us).