

**MARPLE TOWNSHIP POLICE PENSION PLAN**

**DELAWARE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2010**





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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 Marple 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 Marple Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 89-25, 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  
Marple Township  
Delaware County  
Broomall, PA 19008

We have conducted a compliance audit of the Marple Township Police Pension Plan for the period January 1, 2009, to December 31, 2010. 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. Marple 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 effective internal controls to provide reasonable assurance that the Marple Township 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 township's internal controls as they relate to the township'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 Marple 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 – Inconsistent Pension Benefits

As previously noted, one of the objectives of our audit of the Marple Township Police Pension Plan was to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. During the current audit period, Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 66.1% as of January 1, 2009, which is the most recent date available. Based on this information, the Public Employee Retirement Commission issued a notification that the township is currently in Level II moderate distress status. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

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

January 27, 2012

JACK WAGNER  
Auditor General

MARPLE TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Marple 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
- Inconsistent Pension Benefits

MARPLE 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 the prior audit report, the pension plan’s governing document, Ordinance No. 89-25, as amended, contains a survivor’s benefit provision that conflicts with the collective bargaining agreement between the police officers and the township and is not in compliance with Act 600. In addition, an intervening military service credit and a pre-vesting death benefit are not provided.

Furthermore, 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</u>
Survivor’s benefit	The widow of an officer whose death is nonservice connected or of an officer who dies after retiring shall receive 50% of the pension the officer was receiving or would have been receiving had he been retired at time of death. If there is no widow, or if she dies or remarries, the benefit is payable to the child(ren) under age 18.	The widow of an officer whose death is nonservice connected or of an officer who dies after retiring shall receive 50% of the pension the officer was receiving or would have been receiving had he been retired at time of death. If there is no widow, or if she dies, the benefit is payable to the children under age 18 or if a full time college student to age 23. Full time college student shall mean registration at an accredited institution of higher learning with a course load of 7 credit hours per semester.	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.)

MARPLE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Pre-vesting death benefit	Not provided	Not provided	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 18 years, or, if attending college, under or attaining the age of 23 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.
Intervening military service credit	Not provided	Not provided	Any member of the police force employed by a borough, town, township or regional police department, who has been a regularly appointed employee of any such political subdivision or regional police department for a period of at least 6 months and who thereafter shall enter into the military service of the United States, shall have credited to his employment record for pension or retirement benefits all of the time spent by him in such military service, if such person returns or has heretofore returned to his employment within 6 months after his separation from the service.

MARPLE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Member contributions	Not addressed	Officers hired on or after July 1, 2010 shall contribute 6% to the plan. Officers hired prior to July 1, 2010 shall contribute 5% to the plan.	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; or (2) if the pension plan provides for a Social Security offset: (i) on compensation on which Social Security taxes are payable, at a rate calculated by subtracting from 5% the product obtained by multiplying 3% by such offset percentage; and (ii) on compensation in excess of that on which Social Security taxes are payable, if any, 5%. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.
Refund of terminated member contributions	Not addressed	Not addressed	Any member of a police force of a borough, town, township or regional police department, who for any reason whatsoever, shall be ineligible to receive a pension after having contributed any charges to a police pension fund established pursuant to the provisions of this act, or to a police pension fund existing on the effective date of this act supplanted by a police pension fund established pursuant to the provisions of this act, shall be entitled to a refund of all such moneys paid by him into such funds plus all interest earned by such moneys while in the police pension fund...

MARPLE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Retirement benefit	One half the officer's monthly average salary (salary undefined).	For officers hired prior to 1/1/02, one half the officer's monthly average salary including longevity payments made at retirement. For officers hired after 1/1/02, one half the officer's monthly average salary. Salary is limited to base wage, overtime, educational incentive, longevity increment and night differential. Payments made for unused vacation, holiday, severance, sick and compensatory time shall not be included in salary for computing pension.	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 provides for an unauthorized survivor cost of living benefit provision as noted below:

Collective Bargaining Agreement	Act 600
The spouse and/or minor children of a deceased officer receiving the survivor's pension benefit shall receive an annual cost of living increase. This shall be computed in accordance with section 5 of Act 600.	The ordinance or resolution establishing the police pension fund may provide for a cost of living increase <u>for members of the police force receiving retirement benefits</u> . 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 75% of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed 30%. (Emphasis added)

MARPLE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600, as amended.

Cause: Municipal officials were unable to implement compliance with the prior audit recommendation through the collective bargaining process.

Effect: Inconsistent plan documents that are not in compliance with Act 600 could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

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: The township will be drafting a new police pension ordinance which will address the Auditor General’s findings and recommendations. We expect to have the ordinance prepared and enacted by the Board of Commissioners within the upcoming months.

Auditor’s Conclusion: Compliance with the finding recommendation will be evaluated during the next audit of the plan.

MARPLE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in our prior audit report, the collective bargaining agreement (CBA) provides for an early retirement benefit and a service-related disability benefit in accordance with Act 600 provisions. However, the plan’s governing document does not contain an early retirement benefit provision and the service-related disability benefit provision, although also in compliance with Act 600, is inconsistent with the CBA. In the current audit period, it has been determined that the service increment provisions contained in the CBA and the plan’s governing document, although in compliance with Act 600, are inconsistent with each other. In addition, the actuarial valuation report dated January 1, 2009, does not contain the early retirement benefit provision. The inconsistent benefit provisions are noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Early retirement	Not provided	Available to officers with 20 or more years of continuous service who terminate employment prior to meeting superannuation age and service requirements. A partial superannuation benefit shall be determined by applying the percentage that the officer’s years of service bear to the years that the officer would have rendered had the member continued to be employed through the superannuation retirement date to the gross pension calculated using the monthly average salary during the appropriate period prior to termination of employment. The actuarial equivalent of the partial superannuation benefit shall be determined by actuarially reducing the partial superannuation benefit to reflect that it will commence on the early retirement date as opposed to the superannuation retirement date. The reduction shall be calculated using the actuarial assumptions in the most recent actuarial valuation report filed with PERC.

MARPLE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Service-related disability benefit	...officer is permanently and totally disabled... cannot perform his police duties, he shall receive a pension equal to 70% of W - 2 reportable wages at the time of his retirement with the exception of the first 6 months during which time the benefit equals 100%... benefit is offset for Social Security or workers' compensation payments received for the same injury and reverts to a normal retirement benefit at the appropriate time.	The greater of 1 or 2: 1) 70% of W - 2 reportable wages at the time of his retirement. This benefit is offset for Social Security or workers' compensation payments received for the same injury. 2) 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.
Service increment benefit	\$100 per month after 26 years of service.	\$100 monthly increment for each year of completed service in excess of 25 years, up to a maximum of \$500 per month.

Criteria: The collective bargaining agreement and the plan's governing document should contain consistent benefit provisions that are in accordance with Act 600 provisions.

Cause: Municipal officials were unable to implement compliance with the prior audit recommendation through the collective bargaining process.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that municipal officials ensure that the plan's governing document and the collective bargaining agreement contain consistent benefit provisions that are in compliance with Act 600 at their earliest opportunity to do so.

In addition, we recommend that all benefit provisions be included in the plan's actuarial valuation report to ensure the plan is being funded in accordance with Act 205 provisions.

MARPLE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Management's Response: The township will be drafting a new police pension ordinance which will address the Auditor General's findings and recommendations. We expect to have the ordinance prepared and enacted by the Board of Commissioners within the upcoming months.

Auditor's Conclusion: Compliance with the finding recommendation will be evaluated during the next audit of the plan.

MARPLE 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. The historical information, beginning as of January 1, 2005, 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)]
01-01-05	\$ 11,103,685	\$ 14,420,669	\$ 3,316,984	77.0%	\$ 2,316,951	143.2%
01-01-07	11,529,560	15,117,699	3,588,139	76.3%	2,799,829	128.2%
01-01-09	9,603,713	14,536,815	4,933,102	66.1%	2,514,320	196.2%

Note: The market value of the plan's assets at 01-01-05 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. The market value of the plan's assets at 01-01-09 have been adjusted to reflect the smoothing of gains and/or losses which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

MARPLE 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.

MARPLE TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

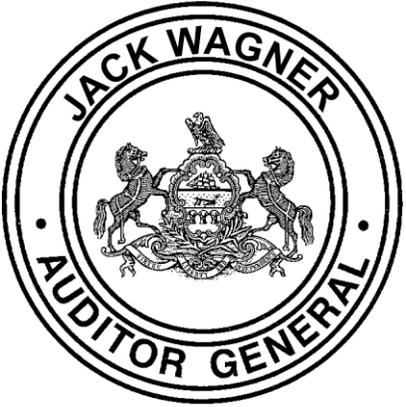
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 421,645	100.0%
2006	500,228	100.0%
2007	559,978	100.0%
2008	569,378	100.0%
2009	659,169	100.0%
2010	655,334	100.0%

MARPLE 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	The actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	Discretionary



MARPLE TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Marple Township Police Pension Plan  
Delaware County  
227 South Sproul Road  
Broomall, PA 19008

Mr. Michael K. Molinaro	Chairman, Board of Township Commissioners
Mr. Anthony T. Hamaday	Township Manager
Mr. Edward E. O'Lone	Finance Director

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).