

MOORE TOWNSHIP POLICE PENSION PLAN

NORTHAMPTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2011



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CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Findings	7
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation.....	8
Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan	11
Finding No. 3 – Late Filing Of Actuarial Valuation Report	12
Finding No. 4 – Improper Elimination Of Members’ Contributions	14
Supplementary Information	15
Report Distribution List	19

ABBREVIATIONS

PMRS - Pennsylvania Municipal Retirement System

PERC - Public Employee Retirement Commission

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 Moore 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Moore Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2005-19, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.



Board of Township Supervisors
Moore Township
Northampton County
Bath, PA 18014

We have conducted a compliance audit of the Moore Township Police Pension Plan for the period January 1, 2009, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The Moore Township Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Moore 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the Moore 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 –
Incorrect Data Supplied To Actuary For Actuarial Valuation
Report Preparation

Finding No. 2 – Partial Compliance With Prior Audit Recommendation –
Failure To Fully Pay The Minimum Municipal Obligation Of
The Plan

Finding No. 3 – Late Filing Of Actuarial Valuation Report

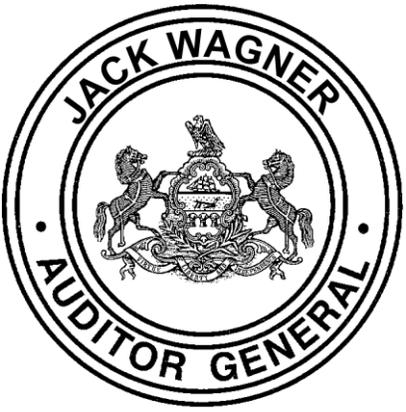
Finding No. 4 – Improper Elimination Of Members' Contributions

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

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

September 19, 2012

JACK WAGNER
Auditor General



MOORE TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Moore Township has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The municipality reimbursed \$15,756 to the Commonwealth for the overpayments of state aid received in the years 2008 and 2009.

Partial Compliance With Prior Audit Recommendation

Moore Township has partially complied with the prior audit recommendation concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

The township paid the 2008 minimum municipal obligation due to the pension plan; however, plan officials failed to fully pay the required minimum municipal obligation due to the plan for the years 2009 and 2010 as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

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

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

MOORE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied
To Actuary For Actuarial Valuation Report Preparation

Condition: As disclosed in the prior audit report, actuarial valuation report form 201C, with a valuation date of January 1, 2007, submitted to the Public Employee Retirement Commission (PERC), 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 on Schedule C, Section IV – Presentation of Benefit Plan Provision:

- Eligibility requirements for normal retirement – Age 50 and 25 years of service for actives on or after 1/1/03;
- Eligibility requirements for early retirement – Age 50 and 20 years of service for actives on or after 1/1/03;
- Retirement benefit for normal retirement – 50% of final 36 month average compensation; and
- Survivor benefit for postretirement – 50% survivorship benefit to spouse or to children, if no spouse or spouse is remarried and pre-retirement – 100% of the benefit the officer would have received if he had retired on his date of death (killed in service only).

In addition, during and subsequent to the current audit period, actuarial valuation report form 201C, with valuation dates of January 1, 2009 and January 1, 2011, submitted to PERC, also contained the incorrect information noted above. Furthermore, the municipality failed to include disability benefits on Schedule C, Section IV – Presentation of Benefit Plan Provision.

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.

MOORE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The PMRS plan agreement at Section 2, states:

Superannuation Retirement: Eligibility for a superannuation retirement shall occur upon the member's attainment of fifty (50) years of age or older and the completion of at least twelve (12) years of credited service.

In addition, the PMRS agreement at Section 3 and Section 4, states:

Basic Benefit: The basic annual benefit shall be equal to two percent (2%) of the member's final average salary multiplied by all years of credited service. Provided however, in no event shall the basic benefit exceed fifty percent (50%) of the member's final salary.

Final Salary: The final salary shall be the average annual compensation earned and paid during the member's final three (3) consecutive years of employment, or if not so long employed, then the average annual compensation earned and paid during the whole period of such employment.

The PMRS plan agreement at Section 5, states:

Early Retirement: A member who has been involuntarily terminated after eight (8) years of credited service may retire early. Benefits will be actuarially reduced for each year or partial year thereof that early retirement takes place prior to age fifty (50).

Furthermore, the PMRS plan agreement at Section 7 states, in part:

...the surviving spouse (or in absence of a spouse, any surviving children under the age of eighteen, or if attending college under or attaining the age of twenty – three) will receive a pension equal to one-half of the pension which such member would have been eligible to receive if the member had been retired at the time of death.

MOORE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Finally, the PMRS plan agreement at Section 6 states:

Permanent Disability Benefits: A member who has ten (10) or more years of credited service may, upon application or on application of one acting in the member's behalf, or upon application of a responsible official of the municipality, be retired by the Pennsylvania Municipal Retirement Board on a disability allowance if the physician designated by the Board, after medical examination of the member shall certify to the Board that the individual is unable to engage in any gainful employment and that said member ought to be retired. When the disability of a member is determined to be service-connected, as defined by Act 15 of 1974, no minimum period of service shall be required for eligibility.

A disability annuity shall be payable from the total disability reserve account which, together with the municipal annuity and the member's annuity, if any, shall be sufficient to produce a retirement allowance of thirty percent 30% of the member's final salary. Where the disability is determined to be service-connected, the disability allowance shall equal fifty percent (50%) of the member's final salary. The disability annuity shall be reduced by the amount of any payments for which the member shall be eligible under the Pennsylvania Workmen's Compensation Act.

Cause: The discrepancies in the data submitted to the plan's actuary occurred because plan officials did not verify that the information was consistent with the plan's governing document. In addition, plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the actuary may have resulted in the municipality receiving an incorrect allocation of state aid.

In addition, the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO); therefore, the incorrect data may have resulted in an erroneous MMO calculation.

Recommendation: We recommend that plan officials contact PERC to determine if a revised January 1, 2011, actuarial valuation report may be filed. If a revised report is prepared and accepted by PERC, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 402-D Finance Building, Harrisburg, PA 17120.

MOORE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that if a revised actuarial valuation report is prepared and accepted by PERC, the chief administrative officer of the pension plan recalculate the MMO and make any necessary deposit to the plan, with interest in accordance with Section 302(e) of Act 205.

Finally, we recommend that, in the future, plan 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.

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Fully Pay
The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, plan officials did not fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2008, as required by Act 205.

During the audit period, the township paid the 2008 MMO due; however, plan officials failed to fully pay the MMOs of the police pension plan for the years 2009 and 2010, as required by Act 205. Based upon an estimate prepared by this department, the municipality had unpaid MMO balances of \$3,086 and \$34,809 for the years 2009 and 2010, respectively.

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.

MOORE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

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 at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's MMOs were fully paid in accordance with Act 205 requirements. In addition, plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation

Effect: 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.

Due to the municipality's failure to fully pay the 2009 and 2010 MMOs by the December 31, 2009 and December 31, 2010 deadlines, the municipality must add the 2009 and 2010 MMO balances to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMOs due to the police pension plan for the years 2009 and 2010, 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's Response: Municipal officials agreed with the finding without exception.

Finding No. 3 – Late Filing Of Actuarial Valuation Report

Condition: Actuarial valuation report form 201C, with a valuation date of January 1, 2009, was not submitted to the Public Employee Retirement Commission (PERC) by the March 31, 2010, deadline, as required by Act 205. The actuarial valuation report was not received by PERC until July 21, 2010.

MOORE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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

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

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

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

In addition, Section 204 of Act 205 provides:

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

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit

Cause: Plan officials failed to establish adequate internal control procedures to ensure the actuarial valuation report was filed timely in accordance with Act 205 requirements.

MOORE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: Due to the late filing of the actuarial valuation report, the township's 2010 state aid allocation was withheld until the necessary report was filed. In addition, the adjusted unit value of \$3,146 was used to calculate the township's state aid allocation, instead of the regular unit value of \$3,235. Because the municipality certified 22 units, it received \$1,958 less state aid than it would have received had the actuarial valuation report been submitted in a timely manner.

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

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

Finding No. 4 – Improper Elimination Of Members' Contributions

Condition: During the year 2011, the governing body of the municipality failed to eliminate members' contributions through the adoption of a resolution in accordance with the PMRS plan agreement.

Criteria: The PMRS plan agreement at Section 10 states, in part:

Members shall contribute five percent (5%) of their total compensation. If sufficient funds exist, the Township may annually elect to lower or waive the required member contribution rate in future years by adopting a resolution and filing it with the Board.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that members' contributions were eliminated in accordance with the PMRS plan agreement provisions.

Effect: Discrepancies could arise as to whether members' contributions are required in a given year.

Recommendation: We recommend that the municipality either annually eliminate members' contributions in accordance with the plan's governing document, or reinstate the collection of members' contributions in accordance with the rate approved by the municipality.

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

MOORE 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, 2007, 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)]
01-01-07	\$ 1,405,353	\$ 1,345,834	\$ (59,519)	104.4%	\$ 345,232	(17.2%)
01-01-09	1,473,744	1,511,733	37,989	97.5%	411,446	9.2%
01-01-11	1,805,951	1,837,663	31,712	98.3%	525,976	6.0%

MOORE 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.

MOORE 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
2006	\$ 59,840	100.9%
2007	67,841	100.0%
2008	52,866	100.0%
2009	66,329	95.3%
2010	104,029	66.5%
2011	131,575	107.0%

MOORE 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, 2011
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	6.0%
Projected salary increases	4.0%

MOORE TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Moore Township Police Pension Plan
Northampton County
2491 Community Drive
Bath, PA 18014

Mr. David Tashner, Sr.	Chairman, Board of Township Supervisors
Mr. Richard K. Gable	Secretary/Treasurer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

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.