

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
NORTHUMBERLAND COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2007, TO DECEMBER 31, 2009



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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 Mount Carmel 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 Mount Carmel Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 6-2008, 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
Mount Carmel Borough
Northumberland County
Mount Carmel, PA 17851

We have conducted a compliance audit of the Mount Carmel Borough Police Pension Plan for the period January 1, 2007, to December 31, 2009. 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. Mount Carmel Borough contracted with an independent certified public accounting firm for audits of its basic financial statements for the years ended December 31, 2007 and 2008, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Carmel Borough 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 borough's internal controls as they relate to the borough'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 Mount Carmel 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 findings further discussed later in this report:

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions

Finding No. 2 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

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

April 30, 2010

JACK WAGNER
Auditor General

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Mount Carmel Borough has complied with the prior audit recommendations concerning the following:

- Failure To Properly Determine And Pay the Minimum Municipal Obligations Of The Plan

The borough paid the minimum municipal obligations due to the police pension plan for the years 2000 and 2001 in accordance with Act 205 provisions;

- Pension Benefit Not Authorized By Act 600

Borough officials recalculated and adjusted the pension benefit to be in accordance with Act 600 provisions; and

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Plan officials reviewed and verified all information submitted to and received from the plan's actuary to ensure that the actuarial valuation reports properly reflected the status of the pension plan.

Partial Compliance With Prior Audit Recommendation

Mount Carmel Borough has partially complied with the prior audit recommendation concerning the following:

- Pension Plan Not in Compliance With Act 600 Provisions

Borough officials adopted Ordinance No. 6-2008, to bring the police pension plan's benefit structure into compliance with Act 600, as amended, regarding survivors benefits and early retirement provisions. However, there continues to be benefit provisions contrary to Act 600 and inconsistencies between the governing document and the collective bargaining agreement as further discussed in the Findings and Recommendations section of this report.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Pension Plan Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document, Ordinance No. 4-1981, as amended, contained benefit provisions that conflicted with the collective bargaining agreement between the police officers and the borough and were not authorized by Act 600. In addition, it was noted the collective bargaining agreement contained an unauthorized nonservice-related disability benefit provision.

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.

During the current audit period, borough officials adopted Ordinance No. 6-2008, which repealed Ordinance No. 4-1981, to bring the police pension plan’s benefit structure into compliance with Act 600, as amended, regarding survivors benefits and early retirement provisions; however, there remain benefit provisions that are not in compliance with Act 600 and inconsistencies between the new governing document and the collective bargaining agreement. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service-related disability	Borough council shall promulgate regulations that shall provide for benefits to members who are permanently disabled while in service to the Borough.	The benefit shall be 50% of the employees’ last 36 months reduced by such payments received by Worker’s Compensation and any disability insurance that exists or may be purchased by the borough in the future.	The benefit shall be in conformity with a uniform scale and fixed by the plan’s governing document, but at least 50% of the member’s salary at the time of disability, provided that if the member receives Social Security disability benefits for the same injury, his disability benefit is reduced by the amount of the Social Security benefit.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Nonservice-related disability	None provided	The benefit shall be 50% of the employees' last 36 months reduced by such payments received by Worker's Compensation and any disability insurance that exists or may be purchased by the borough in the future.	Not authorized
Normal retirement age	The age of fifty-five (55) years.	The age of fifty (50) years.	The age of the members of the force at fifty-five years, or, if an actuarial study of the cost shows that such reduction in age is feasible, may fix the age of the members of the force at fifty years, after which they may retire from active duty.
Definition of "attending college"	Not provided	Attending college is defined as enrolled in an institution of higher learning at the time of the employee's death, and carrying a minimum course load of seven credit hours per semester.	"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.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Intervening military service credit	Not provided	Any member of the police force employed by the borough for a period of at least six 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 six months after his separation from the service.	Any member of the police force employed by a municipality for a period of at least six 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 six months after his separation from the service.
Non-intervening military service credit	Not provided	The borough shall provide full service credit for each year of military service or fraction thereof, not to exceed 3 years, to any member of the police force who was not employed by the Borough prior to such military service other than intervening military service.	The police pension fund may provide full service credit for each year of military service or fraction thereof, not to exceed five years, to any member of the police force who was not employed by the municipality prior to such military service.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Pre-vesting death benefit	If such discontinuance is due to death, such monies shall be paid to a designated beneficiary or, in the absence thereof, to his estate.	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 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.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Cost-of-living allowances	Not provided	The cost of living increase shall be determined by using the Consumer Price Index from the year in which the employee last worked. The retired employee's total cost of living shall not exceed 10 percent per year. The total accumulative Cost of Living Adjustment shall not exceed 30% of the initial pension. In no case shall the total pension benefits exceed 75% of the salary for computing retirement benefits. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.	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 per centum of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed 30 per centum. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Vested retirement	Not provided	An employee that has not completed the superannuation retirement age and service requirements but after completing 12 years of total service, for any reason ceases to be employed as a regular employee in which he was a member of the Borough of Mount Carmel Police Pension Fund, shall be entitled to vest his retirement benefits by filing with the Borough within 90 days of the date he ceases to be a regular employee a written notice of his intention to vest.	Should a police officer, before completing superannuation retirement age and service requirements but after having completed twelve years of total service, for any reason cease to be employed as a full-time police officer by the municipality in whose pension fund he has been a member, he shall be entitled to vest his retirement benefits by filing with the governing body within ninety days of the date he ceases to be a full-time police officer a written notice of his intention to vest.
Service increment	Not provided	A service increment benefit at the rate of \$100 per month shall be provided to retired employees for each completed year of service over 25 years of service. Maximum benefit is \$100 per month.	The borough may establish and pay length of service increments for years of service beyond 25 years for each completed year of service in excess of 25 years, not to exceed \$100 per month for each completed year of service in excess of 25 years up to a maximum of \$500 per month after five completed years of service in excess of 25 years.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. Furthermore, the plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600, as amended.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

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.

Finding No. 2 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not determine the financial requirements of the plan (FRP) or the minimum municipal obligation (MMO) of the police pension plan for the year 2010, as required by Act 205. In addition, the chief administrative officer (CAO) of the plan failed to submit the FRP and MMO to the governing body of the municipality, as required by Act 205.

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

Annually, the chief administrative officer of the pension plan shall determine the financial requirements of the pension plan for the following plan year.

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.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Further, Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

Cause: Plan officials did not comply with the Act 205 requirements because there was a recent turnover of plan officials.

Effect: The proper determination and submission of the plan's FRP and MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year.

Recommendation: We recommend that the CAO determine the FRP and MMO of the pension plan for the year 2010 and submit these calculations to the governing body, as required by Act 205.

Furthermore, plan officials should establish adequate internal control procedures, which could include a written procedure manual, to assist them in complying with Act 205 reporting and funding requirements.

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

MOUNT CARMEL 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, 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	\$ 2,222,557	\$ 2,578,337	\$ 355,780	86.2%	\$ 456,676	77.9%
01-01-07	2,440,064	2,880,049	439,985	84.7%	386,566	113.8%
01-01-09	2,303,004	3,033,045	730,041	75.9%	459,174	159.0%

MOUNT CARMEL 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.

MOUNT CARMEL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

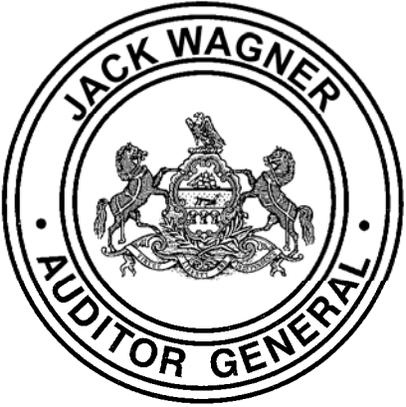
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 31,172	100.0%
2005	90,789	100.0%
2006	120,580	100.0%
2007	112,614	100.0%
2008	113,769	100.0%
2009	132,675	100.0%

MOUNT CARMEL 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, 2009
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	7.0%
Projected salary increases	5.0%



MOUNT CARMEL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Mount Carmel Borough Police Pension Plan
Northumberland County
137 West Fourth Street
Mount Carmel, PA 17851

The Honorable J. Kevin Jones	Mayor
Mr. Tony Matulewicz	Council President
Mr. Edward T. Cuff, III	Chief Administrative Officer

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.