

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN

BEAVER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2004, TO DECEMBER 31, 2006



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BACKGROUND

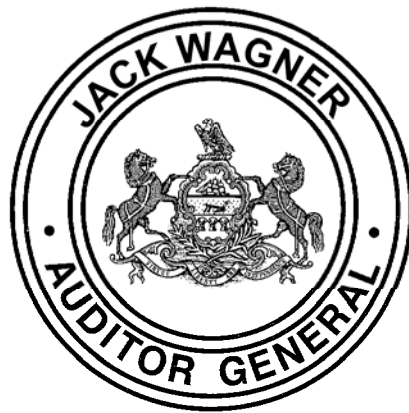
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, 53 P.S. §895.101, et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to 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 New Sewickley 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. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The New Sewickley Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 101, 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 Supervisors
New Sewickley Township
Beaver County
Rochester, PA 15074

We have conducted a compliance audit of the New Sewickley 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 finding 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. New Sewickley Township contracted with an independent certified public accounting firm for annual audits of the New Sewickley Township Police Pension Plan's 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 New Sewickley 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 New Sewickley 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 – Inconsistent Provision Of Cost-Of-Living Adjustment

Finding No. 3 – Inconsistent Provision Of Member Contributions

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

October 9, 2007

JACK WAGNER
Auditor General

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Pension Benefits Not In Compliance With Act 600 Provisions

NEW SEWICKLEY 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 our prior audit report, the pension plan’s governing document, Ordinance No. 101, as amended, contains benefit provisions that are not in compliance with Act 600. 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>Act 600 (as amended)</u> |
|------------------------------------|--|--|
| Killed in service benefit | Not provided | Pensions for the families of members killed in service shall be calculated at 100% of the member’s salary at the time of death. |
| Survivor’s benefit | Not provided | 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.) |
| Service-related disability benefit | One-half of the average monthly compensation of such member during the last thirty-six months of employment. | 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. |

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Act 600 (as amended)</u> |
|---------------------------------|--|--|
| Intervening military service | 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 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. |
| Service increment | A retired police employee shall receive the sum of \$100 per year for each completed year in excess of 25 years. | 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. |

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Act 600 (as amended)</u> |
|---------------------------|---|--|
| Pre-vesting death benefit | Any member of the police force who, for any reason whatsoever shall be eligible to receive a pension after having contributed any charges to the Police Pension Fund established pursuant to the provisions of this Ordinance, shall, immediately upon discontinuance of his or her employment with the police force, be entitled to a refund of all such monies paid by him or her into such fund plus all interest earned on such monies while in the Police Pension Fund calculated at the rate of 5% per annum. If such discontinuance is due to death, such money shall be paid to his designated beneficiary or, in the absence thereof, to his 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. |

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: Municipal officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

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.

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inconsistent Provision Of Cost-Of-Living Adjustment

Condition: On September 3, 2002, the township and the former police chief reached a written agreement finalizing his employment with the township and setting his retirement date as of February 1, 2003. In the agreement, the township agreed to pay a cost-of-living adjustment (COLA) annually to the former chief upon his retirement. Effective September 1, 2005, the former chief began receiving his annual COLA retroactive to his retirement date. However, two members who retired in 2002 and a member who retired in 2004 were not granted similar cost-of-living adjustments.

Criteria: Act 600 at section (g) (1) states as follows:

The ordinance or resolution establishing the police pension fund may provide for a cost of living increase for members of the police force receiving retirement benefits. 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 seventy-five per centum of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed thirty per centum. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

In addition, Ordinance No. 101 at Section 15 states, in part:

A cost of living increase may be provided by the board for members of the police force receiving retirement benefits on or about the first day of January of each year. The cost of living increase granted shall not exceed the percentage increase in the Consumer price Index as published by the U.S. Department of Commerce from the year in which the police member receiving benefits last worked.

Therefore, both Act 600 and the plan's governing document do not authorize selective cost-of-living adjustments.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the cost-of-living adjustments were paid to all eligible retired police officers.

Effect: Cost-of-living adjustments are not being consistently provided.

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that plan officials pay cost-of-living adjustments to all eligible retired police officers in accordance with Act 600 provisions.

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

Finding No. 3 – Inconsistent Provision Of Member Contributions

Condition: The pension plan's governing document, Ordinance No. 101, as amended, contains a member contribution provision that conflicts with the township's current practice of deducting member contributions.

Ordinance No. 101 at Section (8) (b) states as follows:

Where positions covered by the Fund are included in an agreement under the Federal Social Security Act, by a monthly charge against each member of the force in an amount equal to 2.75% of that portion of his or her monthly compensation on which Social Security Taxes are payable and 5% of that portion of monthly compensation in excess of that on which Social Security Taxes are payable. If an actuarial study shows that the condition of the Police Pension Fund is such that payments into the fund by members of the force may be reduced below the minimum percentages hereinbefore prescribed or eliminated and that such payments are reduced or eliminated, contributions to the Township will not be required to keep the fund actuarially sound, the Board of Supervisors may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the Fund by the members of the police force.

It was noted that during the audit period, plan members are currently participating in Social Security and contributing 5 percent of compensation.

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Act 600 at Section (6)(a) states in part:

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.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the member contributions were being deducted in accordance with the provisions contained in the plan's governing document.

Effect: Member contributions are not being properly deducted.

Recommendation: We recommend that municipal officials review the provisions contained in the plan's governing document pertaining to member contributions and implement adequate internal control procedures to ensure that member contributions are properly deducted in the future pursuant to the provisions contained in the plan's governing document.

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

NEW SEWICKLEY 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 | \$ 1,787,400 | \$ 1,054,940 | \$ (732,460) | 169.4% | \$ 332,062 | (220.6%) |
| 01-01-03 | 1,781,051 | 1,612,663 | (168,388) | 110.4% | 384,393 | (43.8%) |
| 01-01-05 | 1,981,419 | 1,795,362 | (186,057) | 110.4% | 479,797 | (38.8%) |

The amounts in the above table have been adjusted, as appropriate, for insurance/annuity contracts maintained preretirement to fund a portion of the benefits provided by the pension plan at retirement.

NEW SEWICKLEY 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.

NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

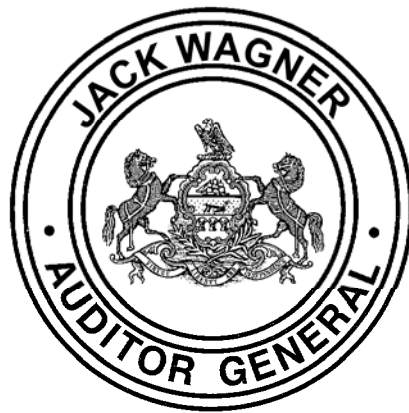
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2001 | None | N/A |
| 2002 | None | N/A |
| 2003 | None | N/A |
| 2004 | \$ 34,812 | 100.0% |
| 2005 | 36,612 | 113.9% |
| 2006 | 56,423 | 100.0% |

NEW SEWICKLEY 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 | Market value |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases | 5.0% |



NEW SEWICKLEY TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

New Sewickley Township Police Pension Plan
Beaver County
233 Miller Road
Rochester, PA 15074

Mr. Thomas C. Smith Chairman, Board of Township Supervisors

Ms. Patricia Fowler 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.