

**OXFORD BOROUGH POLICE PENSION PLAN**

**CHESTER 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 Oxford 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 Oxford Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 812-2007, 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  
Oxford Borough  
Chester County  
Oxford, PA 19363

We have conducted a compliance audit of the Oxford Borough 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Oxford 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 Oxford 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation –  
Inconsistent And Unauthorized Member Contributions Provision

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

November 9, 2011

JACK WAGNER  
Auditor General

OXFORD BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Oxford Borough has complied with the prior audit recommendation concerning the following:

- Improper Granting Of 2002 Special Ad Hoc Postretirement Adjustment

On January 1, 2010, the borough stopped paying the 2002 special ad hoc postretirement adjustment to the retiree.

Partial Compliance With Prior Audit Recommendation

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

- Inconsistent and Unauthorized Pension Benefits

The collective bargaining agreement (CBA) for the period 2009-2013 contains age and service requirements for normal retirement eligibility that are in compliance with Act 600; however, the member contribution rate contained in the plan's governing document is inconsistent with the rate contained in the current CBA and neither rate is authorized by Act 600 as further discussed in the Finding and Recommendation section of this report.

OXFORD BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Audit Recommendation – Inconsistent And Unauthorized Member Contributions Provision

Condition: As disclosed in the prior audit report, the member contribution rate contained in the plan’s governing document is not authorized by Act 600. In addition, the member contribution rate contained in the collective bargaining agreement (CBA) between the police officers and the borough for the period 2009-2013 conflicts with the provision in the governing document and is not authorized by Act 600, as follows:

<u>Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Member contribution rate	2.75% ( <i>Section 301A of the separately executed group annuity contract restated January 1, 2004</i> )	The officers will continue their contributory share, which shall be 4 percent as of the effective date of this Agreement and shall be capped at four percent for the remainder of this Agreement. ( <i>2009-2013 agreement, Article 13, Section C</i> )	Not less than 5% nor more than 8% of monthly compensation. The governing body of the borough may, on an <u>annual</u> basis, by ordinance or resolution, reduce or eliminate member contributions. (Emphasis added)

Beginning in 2010, members began contributing 4 percent of compensation to the plan pursuant to the CBA. Furthermore, the borough is not annually reducing member contributions in accordance with Act 600 provisions.

Criteria: The member contribution provision contained in the plan’s governing document and the CBA should be consistent and in compliance with Act 600 provisions. In addition, any reduction or elimination of member contributions should be done annually in accordance with Act 600 provisions.

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

Effect: Inconsistent plan documents could result in incorrect member contributions being deposited into the plan.

OXFORD BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend municipal officials take appropriate action to ensure that the member contributions provision contained in the plan’s governing document and the CBA are consistent and in compliance with Act 600 at their earliest opportunity to do so.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure that member contributions are reduced or eliminated in accordance with Act 600 provisions.

Management’s Response: Plan officials agreed with the finding without exception. The borough intends to amend the member contributions language in the adoption agreement to be in accordance with Act 600, and will attempt to eliminate the 4 percent cap in the next collective bargaining agreement.

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

OXFORD 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. 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	\$ 645,394	\$ 987,750	\$ 342,356	65.3%	\$ 388,125	88.2%
01-01-07	774,289	1,105,267	330,978	70.1%	542,900	61.0%
01-01-09	849,632	1,177,890	328,258	72.1%	601,921	54.5%

Note: The market values of the plan's assets at 01-01-05 and 01-01-07 have been adjusted to reflect the smoothing of gains and/or losses over a 3-year averaging period. The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the 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.

OXFORD 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.

OXFORD BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

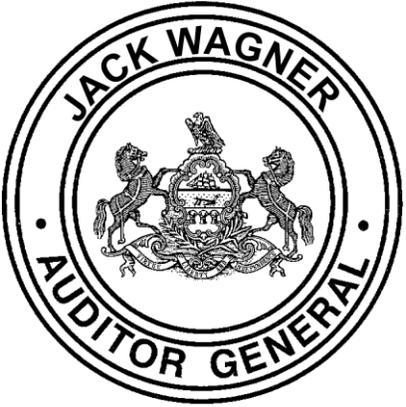
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 85,934	100.0%
2006	96,706	100.0%
2007	123,390	100.0%
2008	105,050	100.1%
2009	106,563	100.0%
2010	97,865	100.0%

OXFORD 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	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



OXFORD BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Oxford Borough Police Pension Plan  
Chester County  
P.O. Box 380  
Oxford, PA 19363

The Honorable Geoffrey Henry	Mayor
Mr. Andrew Atkinson	Council President
Ms. Betsy Brantner	Borough Manager
Ms. Artemis Anderson	Treasurer

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).