

SHENANGO TOWNSHIP POLICE PENSION PLAN

MERCER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2009



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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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 Shenango 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 Shenango Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 138, as amended, adopted pursuant to Act 600, and a joinder agreement with PSABMRT effective November 1, 2001.

The Shenango Township Board of Supervisors disbanded the Shenango Township Police Department effective June 30, 2004, through the adoption of Ordinance No. 150 of 2005. This ordinance resolved that the plan purchase appropriate annuity contracts from an insurer to provide the retirement benefits that are due and payable to each retired participant under the plan and each deferred vested participant under the plan and that the township obtain police services provided by the Southwest Mercer County Regional Police Commission.



Board of Township Supervisors
Shenango Township
Mercer County
West Middlesex, PA 16159

We have conducted a compliance audit of the Shenango Township Police Pension Plan for the period January 1, 2008, 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 this objective.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Shenango 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Shenango 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 finding further discussed later in this report:

Finding – Return Of Unused Monies To The Commonwealth

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

January 6, 2011

JACK WAGNER
Auditor General

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Return Of Unused Monies To The Commonwealth

Condition: Shenango Township disbanded their police department effective June 30, 2004, and entered into an agreement to obtain police services rendered by the Southwest Mercer County Regional Police Commission. On June 30, 2004, each active participant in the Shenango Township Police Pension Plan, who was actively employed as a police officer for the township as of June 30, 2004, had their accrued benefit determined and those funds were transferred to the commission's police pension plan. In March 2005, the township purchased annuities for each of the 3 retirees of the Shenango Township Police Pension Plan and as of December 31, 2009, the township has retained assets in the police pension plan totaling \$232,730.

Criteria: Municipalities that have received state aid allocations pursuant to Act 120, and which do not employ at least one full-time paid police officer, must return unused funds to the Commonwealth pursuant to the provisions of Act 120, at 72 P.S. 2263.3, which states, in part:

All monies distributed under the terms hereof, that are not used for the purposes set forth herein within two years after receipt thereof by the treasurers of several cities, boroughs, towns and townships, shall be returned to the General Fund for distribution...

Cause: Plan officials were unaware of the provisions of Act 120 governing the disposition of unused funds distributed under the act. In addition, because the township has elected not to disband their police pension plan, they felt that the plan's assets were not required to be reimbursed to the Commonwealth.

Effect: The township is improperly retaining funds that should be returned to the Commonwealth for redistribution to eligible municipalities for reimbursement of eligible pension costs.

Recommendation: We recommend that township officials, with the assistance of their solicitor and the plan's actuary, identify any outstanding liabilities that need to be satisfied from the pension plan assets.

After accounting for any remaining liabilities and municipal contributions, the remaining police pension plan assets should be returned to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

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

SHENANGO 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, 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	\$ 609,386	\$ 272,947	\$ (336,439)	223.3%	None	N/A

Generally accepted accounting principles require the above data to be presented as of the plan's actuarial valuation dates for the past six consecutive fiscal years. However, since the plan had no actuarially accrued liability as of January 1, 2007, and January 1, 2009, the township filed actuarial valuation report forms PC-201A, for which supplementary information is not required.

SHENANGO TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
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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.

SHENANGO 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
2004	\$ 4,590	100.0%
2005	None	N/A
2006	None	N/A
2007	None	N/A
2008	None	N/A
2009	None	N/A

SHENANGO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Shenango Township Police Pension Plan
Mercer County
3439 Hubbard-Middlesex Road
West Middlesex, PA 16159

Mr. Robert Palko Chairman, Board of Township Supervisors

Ms. Lynnett Beck Secretary

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.