

SHENANGO TOWNSHIP POLICE PENSION PLAN

LAWRENCE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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BACKGROUND

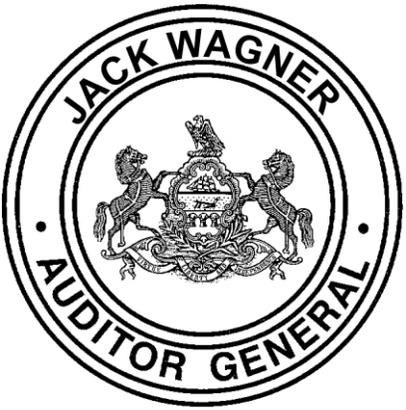
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 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. 2-2008. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.



Board of Township Supervisors
Shenango Township
Lawrence County
New Castle, PA 16101

We have conducted a compliance audit of the Shenango Township Police Pension Plan for the period January 1, 2008, 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 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. Shenango Township contracted with an independent certified public accounting firm for annual audits of its basic 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.

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 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 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 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 – Partial Compliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 600
- Finding No. 3 – Failure To Timely Prepare, Budget And Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid.

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.

As noted in the Comment contained in this report, over a 15-year period, the township has made a series of decisions regarding the expenditure of funds from its police pension plan. These decisions have resulted in the payment of pension benefits in excess of Act 600 provisions that have required the expenditure of township funds over and above what would have been required to fund the plan in accordance with Act 205 requirements pursuant to authorized Act 600 benefit provisions. Municipal officials must establish adequate internal control policies and procedures to ensure that they make fiscally responsible decisions as both plan fiduciaries and township officials that will benefit Shenango Township and its taxpayers to ensure that both the township and its pension funds have adequate resources to meet their respective current and future obligations to its citizens and its hardworking police officers and nonuniformed employees.

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

September 28, 2011

JACK WAGNER
Auditor General

SHENANGO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

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

- Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

Municipal officials determined the financial requirements and the minimum municipal obligations of the pension plan for the years 2006 and 2007 and submitted the calculations to the governing body in accordance with Act 205 requirements.

Noncompliance With Prior Audit Recommendation

Shenango 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

Partial Compliance With Prior Audit Recommendation

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

- Pension Benefits In Excess Of Act 600

The plan's actuary determined the impact of the excess benefits on the plan's state aid allocations received during and subsequent to the prior audit period as further discussed in the Findings and Recommendations section of this report.

SHENANGO 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 the prior audit report, the pension plan’s governing document, Ordinance No. 2-2008, adopted on August 27, 2008, effective January 1, 2008, contains benefit provisions that are not in compliance with Act 600, as amended. The specific unauthorized provisions are noted below:

Benefit Provision	Governing Document	Act 600 (as amended)
Refund of members’ contributions for non-vested employees	A participant who terminates employment for causes other than death or disability prior to becoming vested in a vested benefit shall be entitled to receive the refund of the total amount of the contributions paid into the pension fund with interest.	Requires the refund of member’s contributions, plus interest, to terminating members ineligible for pension benefits.
Survivor’s benefit for disability retiree	No survivor’s pension benefit shall be payable as a result of any eligible employee being eligible or receiving a disability retirement benefit hereunder.	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.)

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Act 600 (as amended)
Forfeitures	Upon the forfeiture of any non-vested portion of a participant's accrued benefit, the amount of such forfeiture shall be credited against the future contributions of the employer under the plan.	No provision for the credit of forfeitures against future employer contributions.
Benefit calculation – final average monthly pay	A normal retirement benefit is calculated at 50% of the participant's Average Monthly Pay, which is defined as a participant's compensation paid by the township during the highest 60 consecutive months of service.	Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.
Intervening military service credit	No provision	Any member of police force employed by a municipality for at least 6 months and enters military service shall have credited to employment records for pension benefits all of the time spent in such military service, if such member returns to his employment within six months after his separation from military service.
Killed-in-service	The surviving spouse of a Participant who is killed in the line of duty shall receive during his or her lifetime a pension equal to one-hundred percent (100%) of the Participant's Final Average Monthly Earnings.	None provided. (The killed-in-service provision in Act 600 was repealed by Act 51 of 2009. The benefit is now provided by the Commonwealth of Pennsylvania.)

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Act 600 (as amended)
Vesting	Where a Participant has completed twelve (12) continuous years of Service or more, and his/her tenure of office or employment shall be terminated before the expiration of twenty-five (25) years of Service, he/she in such event, after attaining the age of fifty-five (55) years, during the remainder of his/her life, be entitled to receive such portion of the full pension as the period of his/her Service to the date its termination bears to the full twenty-five year period of Service for a Normal Retirement Pension....	Where a participant has completed twelve continuous years of service or more, and his employment shall terminate prior to normal retirement date, be entitled to receive benefit on the date that would have been the member’s superannuation retirement date if he had continued to be employed.

It should be noted that in partial compliance with the finding originally issued in the audit report for the period January 1, 2002, to December 31, 2004, the township adopted Ordinance No. 1-2007, which contained a vesting provision that was in compliance with Act 600 provisions. The township adopted Ordinance No. 2-2008 after it granted excess pension benefits to a police officer who retired on April 26, 2008 (See Finding No. 2).

Criteria: The police pension plan’s benefit structure should be in compliance with Act 600, as amended.

Cause: Plan officials failed to establish 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 has resulted in a retired plan member receiving excess vested pension benefits (See Finding No. 2).

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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.

To the extent that the township is not in compliance with Act 600 and is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, the excess benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary will be required to determine the impact, if any, of the excess benefits on the township's future state aid allocations and submit this information to the department.

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

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 600

Condition: As first disclosed in the audit report for the period January 1, 2002, to December 31, 2004, due to a grievance arbitration award that was not appealed by the township, a pension benefit was granted to a surviving spouse that is not authorized by Act 600. A police officer separated from employment, by virtue of his death, on December 5, 2004, at age 42 with 12 years of service. This situation would allow for a deferred survivor benefit to be determined and made payable to his surviving spouse on the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer which would have been September 10, 2017. However, the arbitration ruling, dated November 22, 2005, awarded a monthly survivor benefit payable retroactive to January 1, 2005. The arbitration award, states, in part:

The pension grievance is resolved as set forth above. The Township shall cause to be paid out of the police pension plan the monthly sum of \$767 to (the surviving spouse), retroactive to January 2005, the date that the first monthly payment is due. These monthly payments to (the surviving spouse) shall continue for her lifetime and shall not be discontinued, transferred or diminished in the event of her subsequent remarriage.

During the current audit period, the township continued to pay the excess benefit to the surviving spouse.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, during the current audit period, a police officer who terminated employment on April 26, 2008, with 19 years of credited service, was granted a vested pension benefit payable at the date of his termination instead of a vested pension benefit payable upon reaching his superannuation retirement date of April 1, 2014. This benefit was granted by the township despite the fact that it was not in compliance with Act 600 and not in compliance with Ordinance No. 1-2007, which was the governing ordinance in effect at the time of the member's retirement. Ordinance No. 2-2008, which was made effective on January 1, 2008, was not adopted until August 27, 2008 (See Finding No. 1).

As a result of these two excess benefit determinations, the plan's actuary has prepared Supplemental Actuarial Information Forms AG-MP-1 as of January 1, 2005, 2007 and 2009, to determine the impact of the excess benefits on the township's state aid allocations. However, the excess state aid received has yet to be reimbursed to the Commonwealth.

Criteria: Section 1(a)(4) of Act 600 states, in part:

The surviving spouse of a member of the police force or a former member of the police force who retires on pension and dies... shall during her lifetime... be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death.

Furthermore, Section 5(h) of Act 600 states, in part:

The ordinance or resolution establishing the police pension fund may provide for a vested benefit provided that such would not impair the actuarial soundness of the pension fund. Under the provisions of such benefit, 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 or regional police department 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. Upon reaching the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer he shall be paid a partial superannuation retirement allowance determined by applying the percentage his years of service bears to the years of service which he would have rendered had he continued to work until his superannuation retirement date to the gross pension, using however, the monthly

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

average salary during the appropriate period prior to his termination of employment. Such pension or retirement benefits for any month shall be the sum of clauses (1), (2) and (3) of subsection (c) of such benefits from the police pension fund established pursuant to his act to the extent necessary to bring the total benefits in any month up to his partial superannuation retirement allowance outlined above.

Ordinance No. 1-2007 at Article VII (C) states:

Should any participant, before completing normal retirement age and service requirements but after having completed twelve (12) years of total service, for any reason, cease to be employed as a full-time police officer by the Municipality, he shall be entitled to vest his accrued benefit by filing with the Municipality within ninety (90) days of the date he ceases to be a full-time police officer a written notice of his intention to vest. Upon reaching the date which would have been his normal retirement date if he had continued to be employed as a full-time police officer, he shall be paid a partial retirement allowance determined by applying the percentage his total police service bears to the total police service which he would have rendered had he continued to work until his normal retirement date to the gross pension, using, however, the monthly average salary during the appropriate 36-month period prior to his termination of employment.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that all retirement benefits granted were in accordance with Act 600 provisions.

Effect: The plan is obligated to pay pension benefits in excess of those authorized by Act 600.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amounts of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Based on the data submitted by the plan's actuary, the payment of excess benefits has resulted in the township receiving excess state aid totaling \$62,506 for the years 2006 through 2011.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the township establish and implement strict internal control procedures, including having its solicitor review pension benefit determinations, to ensure that all pension benefits are determined and paid in accordance with Act 600 provisions.

We also recommend that the township reimburse the \$62,506 of excess state aid received for the years 2006 through 2011 to the Commonwealth. A check in this amount, with interest compounded annually from the date of receipt to date of repayment, at a rate earned by the plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

In addition, we again recommend to the extent that the township is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary must determine the impact, if any, of the excess benefits on the township's future state aid allocations and submit this information to the department.

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

Finding No. 3 – Failure To Timely Prepare, Budget And Pay The Minimum Municipal Obligation Of The Plan

Condition: The chief administrative officer (CAO) of the plan failed to timely submit the minimum municipal obligation (MMO) of the police pension plan to the governing body of the municipality for the years 2008, 2009 and 2010, as required by Act 205.

In addition, plan officials did not budget the MMOs of the police pension plan for the years 2009 and 2010, as required by Act 205. Furthermore, plan officials did not fully pay the MMOs due to the police pension plan for the years 2008 and 2009, resulting in unpaid MMOs of \$8,540 in 2008 and \$10,212 in 2009.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, 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:

Annually, the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

In addition, 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.

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

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

Cause: Plan officials failed to establish adequate internal control procedures to ensure the MMOs were prepared, budgeted and fully paid in accordance with Act 205 requirements.

Effect: The failure to properly budget and pay the MMOs 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 police pension plan's MMOs by the December 31, 2008 and December 31, 2009, deadlines, the municipality must add the outstanding MMOs to the current year's MMO and include interest, as required by Act 205.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We recommend that the municipality pay the outstanding MMOs due to the police pension plan for the years 2008 and 2009, 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. Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure that future MMOs are prepared, budgeted and fully paid in accordance with Act 205 requirements.

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

Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified three ineligible part-time police officers and overstated payroll by \$99,352 in 2010 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on pension costs, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
2010	16.55618%	\$ 99,352	\$ 16,449

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Recommendation: We recommend that the total excess state aid, in the amount of \$16,449, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

SHENANGO TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Conditions such as those reported by Finding Nos. 2 and 4 contained in this audit report may lead to a total withholding of state aid in the future unless those findings are corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

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. 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	\$ 839,331	\$ 562,230	\$ (277,101)	149.3%	\$ 159,855	(173.3%)
01-01-07	888,577	580,356	(308,221)	153.1%	254,863	(120.9%)
01-01-09	939,595	714,682	(224,913)	131.5%	239,391	(94.0%)

SHENANGO 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.

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
2005	\$ 1,556	607.6%
2006	23,192	107.6%
2007	24,088	110.7%
2008	17,205	50.4%
2009	17,205	40.6%
2010	6,993	485.2%

SHENANGO 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, 2009
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 *	5.0%
Projected salary increases *	4.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	None assumed

SHENANGO TOWNSHIP POLICE PENSION PLAN
COMMENT

Township Officials Continued Granting Of Pension Benefits In Excess of Act 600 Provisions

Over the last 15 years, our audits of the Shenango Township Police Pension Plan have disclosed repeated instances of benefits awarded to plan members that have not been in compliance with the police pension plan's governing documents and have been in excess of Act 600 provisions.

A summary of these prior audit findings and their excess costs to the township are noted below:

The audit for the period January 1, 1996, to December 31, 1998, cited the township for paying benefits to a retired police officer in excess of the plan's governing document and in excess of Act 600 provisions. The officer retired in March of 1998 with twelve years of credited service and was granted a normal retirement benefit at the date of his retirement instead of a reduced vested benefit upon reaching his superannuation retirement eligibility date. This unauthorized pension benefit resulted in the retired police officer receiving a monthly benefit of \$1,148 from April 1, 1998, through his superannuation retirement eligibility date of April 1, 2011, totaling \$179,088, to which he was not entitled. In addition, beginning April 1, 2011, the retiree is only entitled to a reduced vested benefit of \$561 per month which is \$587 per month less than what he is currently receiving. In 1997 and 1998, the township purchased annuity contracts at a total cost to the pension plan of \$178,359 to fund this benefit. During the 2002 through 2004 audit period, the township reimbursed the pension plan \$91,197 from the township's general fund for the portion of the annuity's cost to fund the excess portion of the benefit.

The audit for the period January 1, 1999, to December 31, 2001, cited the township for paying benefits to its former police chief in excess of the plan's governing document and in excess of Act 600 provisions. The former chief retired on November 15, 1991, with 15 years of credited service. The township awarded him a normal retirement benefit of \$858 per month to commence on his superannuation retirement eligibility date of November 15, 2001, instead of a reduced vested benefit of \$515 per month to commence on his superannuation retirement eligibility date. In 2001, the township purchased an annuity contract at a total cost of \$217,601 to fund this retirement benefit. Subsequently, the township reimbursed the pension plan \$86,940 from the township's general fund for the portion of the annuity's cost to fund the excess portion of the benefit.

SHENANGO TOWNSHIP POLICE PENSION PLAN
COMMENT

Comment – (Continued)

The audit for the period January 1, 2002, to December 31, 2004, cited the township for paying benefits to a surviving spouse in excess of the plan's governing document and in excess of Act 600 provisions. In this case, municipal officials failed to appeal a grievance arbitration award that was granted to a surviving spouse. The arbitration award granted the surviving spouse a lifetime monthly benefit of \$767, retroactive to her husband's death in January 2005. Act 600 and the plan's governing document provide for a deferred survivor benefit to be paid to the surviving spouse on the date which would have been her husband's superannuation retirement eligibility date, had he survived. The officer's superannuation retirement eligibility date was September 10, 2017, resulting in the surviving spouse receiving 81 payments, totaling \$62,127 in excess benefits through the date of this audit report.

During the current audit period, we have again cited the township for paying benefits to a terminated member in excess of Act 600 provisions. The member was eligible for a vested reduced pension benefit payable on his superannuation retirement eligibility date of April 2014 pursuant to Act 600 provisions and Ordinance No. 1-2007, the plan's governing document in effect at the time of the member's retirement. However, the retiree began receiving his pension benefit of \$1,348 on May 16, 2008, when he turned age 55. The township subsequently adopted Ordinance No. 2-2008 on August 27, 2008, and made it effective on January 1, 2008, to justify the pension benefit determination. This excess benefit has resulted in the retiree receiving \$54,594 in excess benefit payments through the date of this audit report.

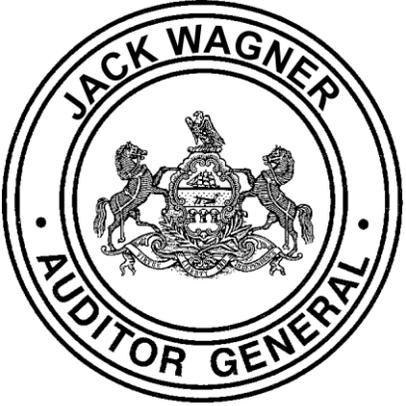
Municipal officials have repeatedly failed to comply with provisions of Act 600 and the plan's governing document. In addition, in relation to the benefits which the municipality has not been contractually obligated to pay, we have previously recommended that municipal officials consult with their solicitor to determine if the benefits can be adjusted to conform with Act 600 provisions. None of the excess pension benefits have been adjusted to conform with Act 600 provisions.

SHENANGO TOWNSHIP POLICE PENSION PLAN
COMMENT

Comment – (Continued)

The excess benefit granted in March of 1998 cost the township \$91,197. The excess benefit granted in November of 2001 cost the township an additional \$86,940. In addition, because the excess benefits granted in January 2005 and May 2008 may not be funded with state aid allocations, it has been determined that the township needs to reimburse excess state aid received in the years 2006 through 2011 in the amount of \$62,506, plus interest, to the Commonwealth. Therefore, the provision of excess pension benefits will cost the township at least \$240,643 through the date of this audit report. In addition, the plan's actuary will be required to determine the effect that the excess benefits have on the township's future state aid allocations.

As previously noted, we recommend that the township establish and implement strict internal control procedures, including having its solicitor review pension benefit determinations, to ensure that all pension benefits are determined and paid in accordance with Act 600 provisions.



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
Lawrence County
1000 Willowbrook Road
New Castle, PA 16101

Mr. Larry A. Herman Chairman, Board of Township Supervisors

Mr. Brian Tanner 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.