

**SOUTH ABINGTON TOWNSHIP POLICE PENSION PLAN**

**LACKAWANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**





**SOUTH ABINGTON TOWNSHIP POLICE PENSION PLAN**

**LACKAWANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**



## CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General .....	3
Findings and Recommendations:	
Finding No. 1 – Data In Actuarial Valuation Reports Inconsistent With Plan’s Governing Document.....	5
Finding No. 2 – Unauthorized Deferred Retirement Option Plan Entry Date .....	7
Supplementary Information .....	9
Report Distribution List .....	13



## 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 South Abington 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 South Abington Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 117, 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  
South Abington Township  
Lackawanna County  
Chinchilla, PA 18410

We have conducted a compliance audit of the South Abington 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 the objective identified above. South Abington Township contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 South Abington 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 South Abington 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 – Data In Actuarial Valuation Reports Inconsistent With Plan’s  
Governing Document

Finding No. 2 – Unauthorized Deferred Retirement Option Plan Entry Date

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

February 10, 2012

JACK WAGNER  
Auditor General

SOUTH ABINGTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Data In Actuarial Valuation Reports Inconsistent With Plan’s Governing Document

Condition: Actuarial valuation report form PC-201C, with valuation dates of January 1, 2009, and January 1, 2011, submitted to the Public Employee Retirement Commission (PERC), contained data that was not consistent with the plan’s governing document.

The following inconsistent information was contained in Schedule C, Section IV – Presentation of Benefit Plan Provisions:

- An early retirement benefit after 20 years of service; however, the plan’s governing document does not provide this benefit; and
- A survivor benefit equal to 100% of the pension which the retired member was receiving or would have received if the member had been retired; however, the survivor benefit provided in the pension plan’s governing document states the survivor benefit shall be equal to 50% of the pension the member was receiving or would have received if the member was retired.

It should be noted that the collective bargaining agreement (CBA) contains the 20 year early retirement benefit provision.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

SOUTH ABINGTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, Section 5(i) of Act 600 states, in part:

The ordinance or resolution establishing the police pension fund may provide for an early retirement benefit. The early retirement benefit shall be provided to a member of the police force with twenty or more years of service who terminates employment prior to the completion of superannuation retirement age and service requirements and who files a written application for an early retirement benefit with the governing body of the municipality or regional police department.

Furthermore, 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 subsequent to retirement, or if no spouse survives or if he or she survives and subsequently dies, then the child or children under the age of eighteen years or, if attending college, under or attaining the age of twenty-three years, of a member of the police force or a member who retires on pension who dies shall during her lifetime in the case of a surviving spouse or until reaching the age of eighteen years or if attending college, under or attaining the age of twenty-three years, in the case of a child or children, 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.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the information contained in the actuarial valuation reports was consistent with the pension plan's governing document.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, incorrect data in the actuarial valuation report may result in the municipality receiving an incorrect allocation of state aid.

In addition, the information contained in the actuarial valuation report is used to determine the municipality's minimum municipal obligation (MMO); incorrect data in the actuarial valuation report may result in an erroneous MMO calculation.

Furthermore, the plan's governing document, CBA and actuarial valuation reports containing inconsistent benefit provisions may result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

SOUTH ABINGTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that township officials review the plan’s governing document, CBA, and actuarial valuation reports with its solicitor to ensure that all benefit provisions are consistent and in compliance with Act 600.

If it is determined that the data in the actuarial valuation reports is incorrect, we recommend that plan officials contact PERC to determine if a revised January 1, 2011 actuarial valuation report should be filed. If a revised report is prepared and accepted by PERC, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

We also recommend that if a revised actuarial valuation report is prepared and accepted by PERC, the chief administrative officer of the pension plan recalculate the applicable MMOs and make any necessary deposits to the plan, with interest, in accordance with Section 302(e) of Act 205.

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

Finding No. 2 – Unauthorized Deferred Retirement Option Plan Entry Date

Condition: Municipal officials granted a police officer an improper retroactive entry date into the deferred retirement option plan (DROP). The agreement to enter the DROP was dated December 21, 2011; however, the police officer’s entry date into the DROP was listed as February 1, 2011.

Criteria: Ordinance No. 214 of 2011, at Section 11(F)(B) states, in part:

A Police Officer electing to participate in the DROP must complete and execute a “DROP Participation Election Form” prepared by the Township, which shall evidence the member’s election to participate in the DROP. The form must be signed by the Police Officer and spouse and be notarized and submitted to the Township prior to the date on which the member wishes DROP participation to commence.

SOUTH ABINGTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, Act 205, at Section 1113(b) states, in part:

**DROP participation election.** Upon deciding to participate in a DROP, a member shall submit on forms provided and required by the retirement system . . . An irrevocable written election to participate in the DROP that: . . . specifies the effective date of DROP participation that shall be the day after the specified retirement date.

Cause: Municipal officials believed that based on advice from their solicitor and plan consultant, that the member's retroactive entry date into the DROP was allowable.

Effect: Municipal officials deposited \$40,222 into the member's DROP account representing payments for the period February 1, 2011, to January 31, 2012.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses.

Recommendation: We recommend that the township review the member's DROP participation with its solicitor and adjust the member's DROP entry date and DROP account balance to be in compliance with the plan's governing document and Act 205.

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

SOUTH ABINGTON 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	\$ 2,716,122	\$ 2,672,217	\$ (43,905)	101.6%	\$ 543,294	(8.1%)
01-01-07	3,116,425	3,013,246	(103,179)	103.4%	576,017	(17.9%)
01-01-09	3,012,858	3,679,638	666,780	81.9%	670,923	99.4%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses at 130 percent of the market value of assets. This method 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.

SOUTH ABINGTON 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.

SOUTH ABINGTON 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	\$ 42,475	100.0%
2006	46,838	148.9%
2007	71,103	102.4%
2008	57,476	100.0%
2009	64,805	100.0%
2010	60,785	119.8%

SOUTH ABINGTON 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	Level dollar
Remaining amortization period	12 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.5%
Includes inflation at	Not disclosed
Cost-of-living adjustments	4.0%

SOUTH ABINGTON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

South Abington Township Police Pension Plan  
Lackawanna County  
104 Shady Lane Road  
Chinchilla, PA 18410

Mr. Giles W. Stanton	Chairman, Board of Township Supervisors
Mr. David O'Neill	Township Manager
Ms. Christine Griswold	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](http://www.auditorgen.state.pa.us).