

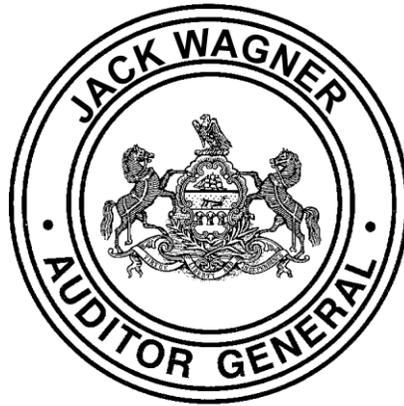
SOUTHERN REGIONAL POLICE PENSION PLAN

LANCASTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2010



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LANCASTER COUNTY

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BACKGROUND

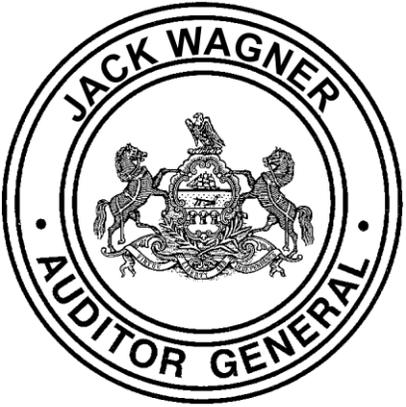
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Southern Regional 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 Southern Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 02-2009, as amended, adopted pursuant to Act 600, effective January 13, 2009. Prior to January 13, 2009, the pension plan was controlled by the provisions of Resolution No. 06-2005. The plan is also affected by the provisions of collective bargaining agreements between the regional police commission and its police officers.



Regional Police Commission
Southern Regional Police Department
Lancaster County
Conestoga, PA 17516

We have conducted a compliance audit of the Southern Regional 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. The Southern Regional Police Commission contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the commission's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Southern Regional 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 commission's internal controls as they relate to the commission'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 Southern Regional 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 – Failure To Budget And Fully Pay The Minimum Municipal
Obligation Of The Plan

Finding No. 2 – Improper Vested Pension Benefit Calculation

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 the Southern Regional Police Commission and, where appropriate, their responses have been included in the report.

June 21, 2011

JACK WAGNER
Auditor General

SOUTHERN REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Budget And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The regional police commission did not budget and fully pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2010, as required by Act 205. According to documentation provided by plan officials, the police pension plan had an unpaid MMO balance of \$12,881 on December 31, 2010.

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

In addition, Section 302(d) of Act 205 states, in part:

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.

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 MMO was budgeted and paid in accordance with Act 205 requirements.

Effect: The failure to properly budget and fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the commission's failure to fully pay the 2010 MMO by the December 31, 2010, deadline, the commission must add the 2010 MMO balance to the current year's MMO and include interest, as required by Act 205.

SOUTHERN REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that the commission pay the outstanding MMO due to the police pension plan for the year 2010, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure the MMO is budgeted and paid in accordance with Act 205 requirements.

Management's Response: Management agreed with the finding without exception. On April 25, 2011, plan officials deposited the remaining 2010 MMO balance, plus interest, into the pension plan.

Auditor's Conclusion: Based on the management response, plan officials have partially complied with the finding recommendation. Full compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Improper Vested Pension Benefit Calculation

Condition: Plan officials included unused sick pay in the vested pension benefit calculation for a plan member who terminated employment during the prior audit period. The inclusion of unused sick pay is prohibited by the plan's governing document. The vested member is scheduled to begin receiving his vested pension benefit on June 1, 2017.

Criteria: The separately executed plan document with Principal Financial Group effective January 1, 2003, defines Compensation as:

Compensation means the total earnings, except as modified in this definition, paid to an Employee by the Employer during any specified period. Earnings as used in this definition includes salary, court pay, holiday pay, overtime pay and other remuneration with the following exclusions:

- Unused sick pay
- Unused vacation pay

Cause: Plan officials failed to establish adequate internal control procedures to ensure the vested pension benefit was determined in accordance with the plan's governing document.

SOUTHERN REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The vested pension benefit calculation is \$125 per month in excess of what is authorized by the plan's governing document.

Recommendation: We recommend that plan officials adjust the vested pension benefit to exclude the unused sick pay in accordance with the plan's governing document.

Management's Response: Management agreed with the finding without exception and requested that the plan's consultant recalculate the vested pension benefit excluding accumulated unused sick pay.

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

SOUTHERN REGIONAL 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	\$ 990,408	\$ 635,521	\$ (354,887)	155.8%	\$ 346,945	(102.3%)
01-01-07	1,158,665	781,569	(377,096)	148.2%	423,022	(89.1%)
01-01-09	1,231,626	931,644	(299,982)	132.2%	482,397	(62.2%)

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 over a 5-year averaging period. 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.

SOUTHERN REGIONAL 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.

SOUTHERN REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

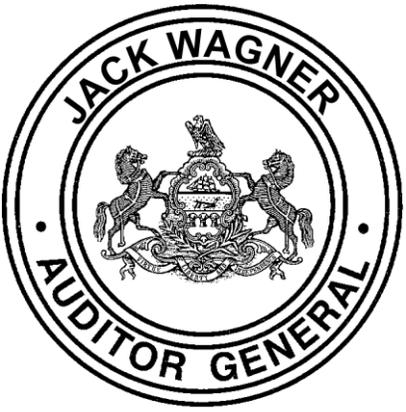
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 38,372	117.3%
2006	48,631	108.0%
2007	55,754	103.5%
2008	58,252	100.0%
2009	60,346	101.6%
2010	76,108	100.0%

SOUTHERN REGIONAL 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	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	Related to the Consumer Price Index (up to 3% in such year) with an overall benefit limit of 130% of the normal retirement benefit.



SOUTHERN REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Southern Regional Police Pension Plan
Lancaster County
P.O. Box 254
Conestoga, PA 17516

Mr. Steve Charles Chairman, Regional Police Commission

Mr. John Fiorill Chief Administrative Officer

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.