

**STEELTON BOROUGH POLICE PENSION PLAN**

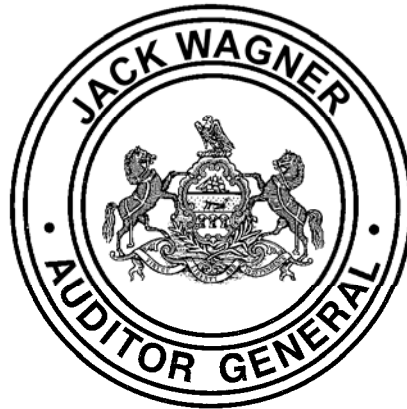
**DAUPHIN COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2004, TO DECEMBER 31, 2006**





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**DAUPHIN 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, 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.

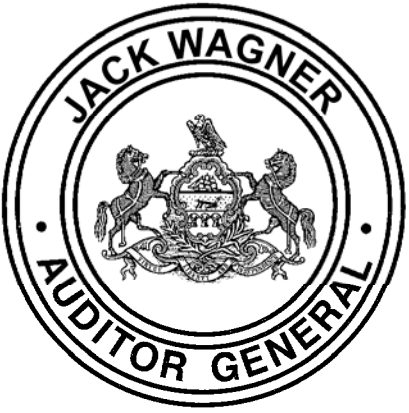
Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, 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 Steelton 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 Steelton Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 76-7, as amended, 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  
Steelton Borough  
Dauphin County  
Steelton, PA 17113

We have conducted a compliance audit of the Steelton Borough Police Pension Plan for the period January 1, 2004, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 of 1984 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. Steelton Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Steelton Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough's compliance with those requirements. 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 Steelton 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 – Noncompliance With Prior Audit Recommendation – Failure To Pay  
2002 Special Ad Hoc Postretirement Adjustment

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

September 26, 2007

JACK WAGNER  
Auditor General

STEELTON BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Steelton Borough has complied with the prior audit recommendations concerning the following:

- Unauthorized Provision For A Time-Certain Benefit

The borough enacted Ordinance No. 2005-2 which eliminated the time-certain benefit;

- Pension Benefits Not In Compliance With Act 600 Provisions

The borough enacted Ordinance No. 2005-2 which included benefit provisions in compliance with Act 600, as amended by Act 30;

- Failure To Pay The Minimum Municipal Obligation Of The Plan

The borough transferred \$48,702 from the nonuniformed pension plan to the police pension plan to correct the allocation error for the year 2004; and

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Municipal officials consulted with the plan's actuary and determined a revised January 1, 2003, actuarial valuation report was not necessary. In addition, the January 1, 2005, actuarial valuation report properly reflected the status of the pension plan.

Noncompliance With Prior Audit Recommendation

Steelton Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Pay 2002 Special Ad Hoc Postretirement Adjustment

STEELTON BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Failure To Pay 2002 Special Ad Hoc Postretirement Adjustment

Condition: As disclosed in our prior audit report, on June 19, 2002, Act 147, otherwise known as the Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, was amended by Act 64. The amendment mandates the payment of a special ad hoc postretirement adjustment to retired police officers and firefighters who began receiving retirement benefits from a municipal retirement system before January 1, 1996, subject to certain limitations, payable on the date of the first retirement benefit payment made after June 30, 2002. Municipal officials have not adjusted the pension benefits of two retirees who are entitled to this special ad hoc postretirement adjustment.

Criteria: Section 401 of Act 147, as amended, states:

Entitlement to 2002 special ad hoc postretirement adjustment. A municipal retirement system shall pay a retired police officer or firefighter a special ad hoc postretirement adjustment under this chapter if all of the following apply:

- (1) The retiree has terminated active employment with the municipality as a police officer or firefighter.
- (2) The retiree is receiving a retirement benefit from a municipal retirement system on the basis of active employment with the municipality as a police officer or firefighter.
- (3) The retiree began receiving the retirement benefit before January 1, 1996.

The amount of the adjustment is based on a formula specified in the act and reduced by 65 percent of any postretirement adjustments provided to the retiree from the pension plan from January 1, 1989, through December 31, 2001.

Cause: Municipal officials failed to establish adequate internal control procedures to comply with the prior audit recommendation.

Effect: Two retirees are not receiving the special ad hoc postretirement adjustment to which they are statutorily entitled. Based upon an estimate prepared by this department, the retiree who retired on July 15, 1975, is entitled to receive an increase of \$64 per month and the retiree who retired on August 18, 1986, is entitled to receive an increase of \$20 per month.

STEELTON BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that municipal officials calculate the 2002 special ad hoc postretirement adjustment due to the retirees and increase their pension benefits by that amount, retroactively, in accordance with Act 147, as amended.

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials have instructed the plan's custodian to increase the two retirees' monthly pension benefits by the authorized amounts, retroactively, in accordance with Act 147, as amended.

Auditor's Conclusion: Based on the management response, it appears that municipal officials intend to comply with the finding recommendation. This compliance will be subject to verification during our next audit of the plan.

STEELTON 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2001, 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)]
01-01-01	\$ 2,931,885	\$ 1,986,094	\$ (945,791)	147.6%	\$ 523,884	(180.5%)
01-01-03	2,435,217	2,202,060	(233,157)	110.6%	596,925	(39.1%)
01-01-05	3,021,145	2,654,021	(367,124)	113.8%	658,556	(55.7%)

STEELTON 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.

STEELTON BOROUGH POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES – CASH BASIS

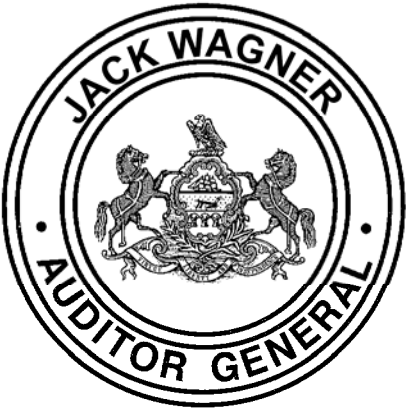
Year Ended December 31	Annual Required Contribution	Percentage Contributed
2001	None	N/A
2002	None	N/A
2003	\$ 28,458	100.0%
2004	45,023	100.0%
2005	77,714	137.3%
2006	53,936	129.8%



STEELTON 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, 2005
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%



STEELTON BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Steelton Borough Police Pension Plan  
Dauphin County  
123 North Front Street  
Steelton, PA 17113

The Honorable Thomas F. Acri	Mayor
Mr. Michael J. Kovach	Council President
Mr. Michael Musser, II	Borough Manager

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).