

**WARMINSTER TOWNSHIP POLICE PENSION PLAN**

**BUCKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2010**





**WARMINSTER TOWNSHIP POLICE PENSION PLAN**

**BUCKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2010**



## CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General .....	3
Status of Prior Finding .....	5
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits.....	6
Supplementary Information .....	10
Report Distribution List .....	15



## 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 Warminster 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 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 Warminster Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 631, 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  
Warminster Township  
Bucks County  
Warminster, PA 18974

We have conducted a compliance audit of the Warminster Township Police Pension Plan for the period January 1, 2009, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Warminster 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 Warminster 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 – Noncompliance With Prior Audit Recommendation –  
Inconsistent And Unauthorized Pension Benefits

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

September 27, 2011

JACK WAGNER  
Auditor General

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Inconsistent Pension Benefit

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits

Condition: As disclosed in our prior audit report, the pension plan’s governing document, Ordinance No. 631, contains a benefit provision that conflicts with the collective bargaining agreement (CBA) between the police officers and the township. Additionally, the provision contained in the CBA is not in accordance with Act 600, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Service-related disability	If a member retires because of a total and permanent disability, he shall be entitled to receive a pension benefit equal to the greater of fifty percent (50%) of his average applicable compensation, or fifty percent (50%) of his salary at the time the disability was incurred, offset by any Social Security disability benefits received by the member for the same injury.	<p>A monthly pension benefit will be payable to a police employee who sustains a “Total Disability” giving rise to his or her eligibility for a “service-related” disability retirement which benefit will be equal to fifty percent (50%) of the police employee’s “Final Average Monthly Compensation” as is herein defined.</p> <p>The police employee who is placed on retirement by reason of a service-related disability shall not have his or her monthly benefit offset or reduced by the amount of any Social Security... benefits.</p>	The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document at no less than 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, the CBA between the police officers and the township provides a vesting benefit provision that conflicts with the plan’s governing document and is not in accordance with Act 600. Pursuant to the provision in the CBA and due to the unauthorized inclusion of severance pay, the township has granted vested pension benefits to two police officers in excess of Act 600 provisions. The provision in the CBA that conflicts with Act 600 and the plan’s governing document is as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600</u>
Vesting benefit	A member who has completed 12 or more years of service may elect... to receive a vested pension benefit.... The amount of the vested pension benefit shall be (x) divided by (y) where (x) is the number of years of service at the date of termination and (y) is the number of years of service which the member would have had if he worked until normal retirement date....	The basic pension benefit described above computed at 50% of his final average monthly earnings, compensation and wages will be reduced <i>pro tanto</i> to a proportion that is equal to the ratio determined by dividing the total number of years of full-time service rendered by the police employee with the township (numerator) by twenty-five (25) years, the minimum years of service required for a normal pension benefit (denominator).	The ordinance or resolution establishing the police pension fund may provide for a vested benefit... 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 average salary during the appropriate period prior to his termination of employment.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, the pension plan’s governing document and the CBA between the police officers and the township grant a benefit that is not authorized by Act 600.

Section 4.01 of Article IV of the plan’s governing document, states, in part:

The monthly pension to which such retired member shall be entitled to under this plan shall be equal to fifty percent (50%) of such member’s average applicable compensation.

Section 1.03 of Article I defines average applicable compensation as follows:

Average Applicable Compensation shall mean the average monthly earnings of the member at any time of reference computed over the last thirty-six (36) months of his continuous employment by the township.... For purposes of computing Average Applicable Compensation, actual monthly earnings shall include base wage pay or salary, overtime pay, vacation pay, longevity increment pay, shift differential, holiday pay, educational increment pay, sick pay, incentive pay, court time and on-call pay as well as any other direct monetary compensation, excluding however, reimbursed expenses, non-monetary compensation such as fringe benefits paid by the township...(Emphasis added)

Although Act 600 does not define “salary”, the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum severance payments.

In addition, the CBA contains a similar definition of compensation.

Plan officials included a severance payment in the determination of the final average salary used to calculate the monthly pension benefit for a vested police officer whose benefit is scheduled to commence in November of 2021.

Criteria: Section 5(c) of Act 600 states, in part:

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.

In addition, the plan’s governing document and the CBA should contain consistent benefit provisions that are in compliance with Act 600.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials believed that their methodology for calculating the vested pension benefits was authorized by Act 600 and required in accordance with the CBA between the township and the police association.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

The vested pension benefit scheduled to commence in November of 2021 (which should actually be April of 2022, representing the member's actual age and service superannuation date according to the plan document) is in excess of Act 600 provisions by \$32 per month due to calculating the benefit pursuant to the CBA and \$142 per month due to the inclusion of severance pay. The vested pension benefit scheduled to commence in October of 2020 is in excess of Act 600 provisions by \$217 per month pursuant to calculating the benefit pursuant to the CBA.

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. In addition, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that municipal officials take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions that are in compliance with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the township is not in compliance with Act 600 and/or 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 may be required to determine the impact, if any, of the excess benefits on the plan's future state aid allocations and submit this information to the department.

Management's Response: Municipal officials agreed with the finding and will attempt to negotiate the benefit provisions at the next negotiation of the collective bargaining agreement with the police association.

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

WARMINSTER 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	\$ 24,457,309	\$ 19,376,088	\$ (5,081,221)	126.2%	\$ 2,930,410	(173.4%)
01-01-07	26,389,313	21,491,877	(4,897,436)	122.8%	3,222,760	(152.0%)
01-01-09	23,853,083	24,303,059	449,976	98.1%	3,682,410	12.2%

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 subject to a corridor between 70 to 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.

WARMINSTER 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.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

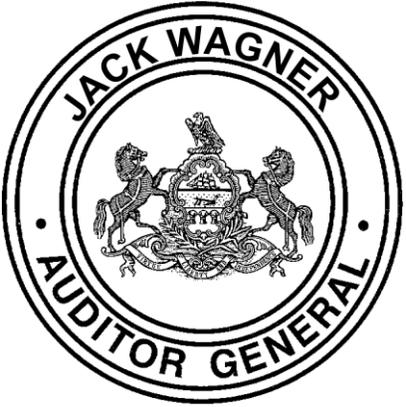
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	None	N/A
2006	None	N/A
2007	None	N/A
2008	\$ 35,039	200.2%
2009	65,794	113.3%
2010	76,868	110.7%

WARMINSTER 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	17 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 70-130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	Granted in accordance with Act 600



WARMINSTER TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Warminster Township Police Pension Plan  
Bucks County  
401 Gibson Avenue  
Warminster, PA 18974

Mr. Frank Feinberg      Chairman, Board of Township Supervisors

Mr. Robert Tate      Township 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).