

**WARRINGTON TOWNSHIP POLICE PENSION PLAN**

**BUCKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2006, TO DECEMBER 31, 2008**





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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 Warrington 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 Warrington Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2007-O-04, 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  
Warrington Township  
Bucks County  
Warrington, PA 18976

We have conducted a compliance audit of the Warrington Township Police Pension Plan for the period January 1, 2006, to December 31, 2008. 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. Warrington 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 an internal control structure to provide reasonable assurance that the Warrington Township 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 township's internal control structure as it relates to the township'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 Warrington 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 Warrington Township and, where appropriate, their responses have been included in the report.

December 10, 2009

JACK WAGNER  
Auditor General

WARRINGTON TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Warrington Township has not complied with the prior audit recommendation concerning the following:

· Inconsistent And Unauthorized Pension Benefits

The township is paying excess pension benefits to a police officer who retired December 31, 2005. As of the date of this report, the retiree is receiving excess benefits of \$1,435 per month, which totaled approximately \$68,856 from his date of retirement through the date of this report. These benefits are being paid pursuant to provisions contained in the plan's governing document and the collective bargaining agreement between the township and its police officers which provided this police officer a normal retirement benefit at age 55 with 20 years of service. Act 600 requires at least 25 years of service in order to be eligible for a normal retirement benefit. Since the township received state aid based on unit value during the audit period it did not receive any state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess benefits being paid to this retired police officer during future audits of the plan.

The remaining inconsistent and unauthorized benefit provisions are noted in the Finding and Recommendation section contained in this report.

WARRINGTON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

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

Condition: As disclosed in the prior audit report, the pension plan’s governing document and the collective bargaining agreement between the township and its police officers contain benefit provisions that are not consistent and are not authorized by Act 600, as noted below:

Benefit Provision	Ordinance No. 2007-O-04	Collective Bargaining Agreement	Act 600
Survivor’s benefit-vested member	The spouse of any police officer who dies prior to Normal Retirement will receive an immediate benefit equal to 50% of the accrued benefit the police officer would have been receiving had he been retired at the time of death. Such benefit is payable until the spouse’s death or if the spouse dies, the benefit is split among children under age 18 or if attending college, under or attaining the age of 23.	Upon the death of an active police employee, whether prior to or after retirement, the surviving spouse will receive a monthly pension benefit beginning on the first day of the month on which the police employee’s death occurred...	Benefit payments commence on what would have been the officer’s normal retirement date.

WARRINGTON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Benefit Provision	Ordinance No. 2007-O-04	Collective Bargaining Agreement	Act 600
Service- related disability	Any police officer who, through a <u>service related</u> disease or injury becomes permanently disabled from performing the duties of a police officer shall be paid fifty percent (50%) of the police officer's salary at the time the disability incurred. This benefit is not to be offset by any Social Security Act benefits received by the police officer for the same injuries.	The active police employee who is eligible for disability retirement benefits shall be paid an amount which represents a fifty percent (50%) portion of his or her actual monthly earnings paid over a period of his last thirty six (36) months immediately preceding retirement or the onset of the disability, with no offset for Social Security disability payments.	A benefit in conformity with a uniform scale and fixed by the plan's governing document, but at least 50% of the member's salary at the time of disability, provided that if the member receives Social Security benefits for the same injury, his disability benefit is reduced by the amount of the Social Security benefit.

WARRINGTON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Benefit Provision	Ordinance No. 2007-O-04	Collective Bargaining Agreement	Act 600
Vested benefit determination	<p>The member's normal retirement benefit multiplied by the ratio of (a) over (b), where:</p> <p>(a) Equals the years of service completed by the member as of his termination of employment, and</p> <p>(b) Equals the years of service the member would have completed if he had continued in employment until his Normal Retirement Date.</p> <p>However, a police officer hired at age 48 who terminates employment with 12 years of service at age 60 will be eligible for 12/20<sup>th</sup> of a full pension beginning at age 60.</p>	<p>Contains a provision that a police officer hired at age 25 who terminates employment with 12 years of service at age 37 will be eligible for 12/25<sup>th</sup> of a full pension beginning at age 50. Also, that a police officer hired at age 48 who terminates employment with 12 years of service at age 60 will be eligible for 12/20<sup>th</sup> of a full pension beginning at age 60.</p>	<p>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.</p>

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600.

Cause: Municipal officials failed to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions that are in compliance with Act 600.

WARRINGTON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Effect: 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. Since the township received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, 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.

In addition, on November 6, 2009, a police officer died prior to his normal retirement date after 19 years of service and his surviving spouse was granted an immediate benefit of \$1,326 per month in compliance with the plan’s governing document but not in compliance with Act 600.

Recommendation: We again recommend that the township 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 at its earliest opportunity to do so. 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 have to determine the impact, if any, of the unauthorized 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 without exception.

WARRINGTON 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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2003, 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)]
01-01-03	\$ 3,638,320	\$ 5,008,906	\$ 1,370,586	72.6%	\$ 1,696,442	80.8%
01-01-05	5,052,234	6,308,153	1,255,919	80.1%	1,884,871	66.6%
01-01-07	6,225,958	7,769,891	1,543,933	80.1%	2,006,857	76.9%

WARRINGTON 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.

WARRINGTON TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

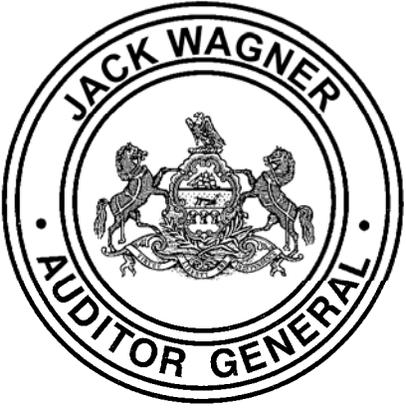
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 135,426	105.3%
2004	303,079	100.0%
2005	323,063	100.5%
2006	360,218	100.5%
2007	375,057	100.0%
2008	399,469	100.0%

WARRINGTON 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	4.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	3.0%



WARRINGTON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Warrington Township Police Pension Plan  
Bucks County  
852 Easton Road  
Warrington, PA 18976

Ms. Carol M. Butterworth	Chairperson, Board of Township Supervisors
Mr. Timothy J. Tieperman	Township Manager
Ms. Vivian Bell	Finance Director

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).