

**WEST NORRITON TOWNSHIP POLICE PENSION PLAN**  
**MONTGOMERY COUNTY**  
**COMPLIANCE AUDIT REPORT**  
**FOR THE PERIOD**  
**JANUARY 1, 2007, TO DECEMBER 31, 2008**





**WEST NORRITON TOWNSHIP POLICE PENSION PLAN**

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ABBREVIATION

PERC - Public Employee Retirement Commission



## 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 West Norriton 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 West Norriton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 488, 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 Commissioners  
West Norriton Township  
Montgomery County  
Jeffersonville, PA 19403

We have conducted a compliance audit of the West Norriton Township Police Pension Plan for the period January 1, 2007, 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. West Norriton 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 West Norriton 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 West Norriton 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 – Failure To Properly Determine And Fully Pay The Minimum  
Municipal Obligation Of The Plan

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

January 4, 2010

JACK WAGNER  
Auditor General

WEST NORRITON TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

West Norriton Township has complied with the prior audit recommendation concerning the following:

· Inconsistent And Unauthorized Pension Benefits

The township amended the plan's governing document by enacting Ordinance No. 08-629 of 2008 and negotiated a new collective bargaining agreement with the police association effective January 1, 2008. The definition of annual salary contained in the plan's governing document and the collective bargaining agreement is now consistent. Additionally, the service increment for police officers hired on or after January 1, 2000, is capped at \$100 per month for years of service in excess of 25 years. However, excess benefits due to no cap on service increments for employees hired prior to January 1, 2000, are still being paid to existing retirees and will be available to those employees upon their retirement. Since the township received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess benefits provided. The department will continue to monitor the impact of the excess benefits being paid to retirees on the township's state aid allocations during future audits of the plan.

WEST NORRITON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation  
Of The Plan

Condition: Plan officials did not properly determine and fully pay the minimum municipal obligation (MMO) of the police pension plan for the year 2008, as required by Act 205. The municipality determined and budgeted the 2008 MMO based upon data that was anticipated to be included in the January 1, 2007, actuarial valuation report, although that report had yet to be filed with PERC. The data included in the January 1, 2007, actuarial valuation report that was certified by PERC contained different information. The normal cost percentage used in the original calculation was 16.57% and the amortization requirement used was \$162,125. However, the normal cost percentage contained in the certified January 1, 2007, actuarial valuation report was 17.90% and the amortization requirement was \$209,376. Therefore, based upon an estimate prepared by this department, the municipality had an unpaid MMO balance of \$75,245 for the year 2008.

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.

With regard to determining an MMO based upon an actuarial valuation report that has yet to be filed with PERC, the Pennsylvania Code, Title 16, Section 204.1(a) states, in part:

Under section 302 of the act, the minimum municipal obligation is based on the latest actuarial valuation report prepared under the requirements of Chapter 2 of the act (53 P. S. § § 895.201—895.208). When an actuarial valuation report has been prepared but not transmitted to the municipality, the municipality may utilize data extracted from that actuarial valuation report..... If the data contained in the actuarial valuation report subsequently filed with the Commission differ from the extracted data previously certified and used to determine the minimum municipal obligation, the data resulting in the higher minimum municipal obligation will be applied in determining compliance with the actuarial funding standard.

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

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

WEST NORRITON TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

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 data used in the 2008 MMO determination was consistent with the data contained in the actuarial valuation report that was certified by PERC.

Effect: The proper determination of the plan’s MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to 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 municipality’s failure to fully pay the 2008 MMO by the December 31, 2008, deadline, the municipality must add the 2008 MMO balance to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO due to the police pension plan for the year 2008, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials establish adequate internal control procedures to ensure the MMO is determined in accordance with Act 205 provisions and applicable regulations.

Management’s Response: The 2008 MMO calculation was properly revised based on the data certified in the January 1, 2007, actuarial valuation report. On December 29, 2009, the township deposited \$87,766 into the police pension plan to pay the outstanding 2008 MMO due plus applicable interest.

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

WEST NORRITON 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<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability as a<br>% of Payroll<br>[(b-a)/(c)] |
| 01-01-03                       | \$ 5,520,263                           | \$ 6,885,292   | \$ 1,365,029   | 80.2%                      | \$ 1,428,522              | 95.6%   |
| 01-01-05                       | 6,204,593                              | 7,906,395  | 1,701,802  | 78.5%                      | 1,720,769                 | 98.9%   |
| 01-01-07                       | 7,480,544                              | 9,048,173  | 1,567,629  | 82.7%                      | 2,099,514                 | 74.7%   |

Note: The actuarial value of the plan's assets 1-01-03, 1-01-05 and 1-01-07, represents an adjusted market value computed by the plan's actuary. 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.

WEST NORRITON 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.

WEST NORRITON TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

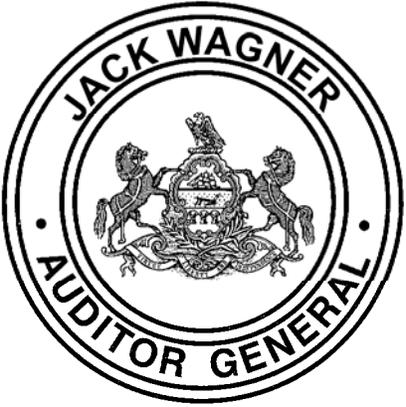
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2003                   | \$ 142,017                   | 106.0%                 |
| 2004                   | 478,839                      | 100.0%                 |
| 2005                   | 500,191                      | 100.0%                 |
| 2006                   | 576,274                      | 100.0%                 |
| 2007                   | 586,380                      | 100.0%                 |
| 2008                   | 560,444                      | 100.0%                 |

WEST NORRITON 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 | 11 years  |
| Asset valuation method        | Adjusted market value with a corridor between 80-120% of market value |
| Actuarial assumptions:        |   |
| Investment rate of return *   | 8.0%  |
| Projected salary increases *  | 5.0%  |
| * Includes inflation at       | Not disclosed   |
| Cost-of-living adjustments    | None assumed  |



WEST NORRITON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

West Norriton Township Police Pension Plan  
Montgomery County  
1630 West Marshall Street  
Jeffersonville, PA 19403

Mr. George Stojanovich      President, Board of Township Commissioners

Ms. Karen Madden          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).