

**YARDLEY BOROUGH POLICE PENSION PLAN**

**BUCKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





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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 Yardley 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Yardley Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 91-5, 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  
Yardley Borough  
Bucks County  
Yardley, PA 19067

We have conducted a compliance audit of the Yardley Borough Police Pension Plan for the period January 1, 2008, to December 31, 2009. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Yardley Borough 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 borough's internal controls as they relate to the borough'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 Yardley 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 findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Failure To Properly Determine And Fully Pay The Minimum  
Municipal Obligation Of The Plan

Finding No. 2 – Noncompliance With Prior Audit Recommendation –  
Untimely Deposit Of State Aid

Finding No. 3 – Inconsistent 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 Yardley Borough and, where appropriate, their responses have been included in the report.

February 2, 2011

JACK WAGNER  
Auditor General

YARDLEY BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Yardley Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan
- Untimely Deposit Of State Aid

YARDLEY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, plan officials did not properly determine and fully pay the 2007 minimum municipal obligation (MMO) of the plan as required by Act 205. The MMO determined by the municipality understated payroll by \$35,098. Based upon an estimate prepared by this department, the municipality had an unpaid MMO of \$5,716.

In addition, during the current audit period, plan officials failed to fully pay the MMO for the years 2009 and 2010, as required by Act 205. Based upon an estimate prepared by this department, the municipality has unpaid MMO balances of \$306 and \$19,261 for the years 2009 and 2010, respectively.

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 the payroll estimate used in the preparation of the 2007 MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year's end using the payroll rates in effect as of the date of the determination.

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.

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. . . .

YARDLEY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

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 2007, 2009 and 2010 MMOs by the respective December 31 deadlines, the municipality must add the 2007, 2009 and 2010 MMO balances to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO balances due to the police pension plan for the years 2007, 2009 and 2010 with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish and implement adequate internal control procedures to ensure that the plan's MMO is properly determined and fully paid in accordance with Act 205 provisions.

Management's Response: Municipal officials agreed with the finding without exception.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid

Condition: As disclosed in the prior audit report, the borough did not deposit its 2006 and 2007 state aid allocations into the pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2006 and 2007 state aid allocations on September 20, 2006, and September 24, 2007, respectively, but did not deposit \$20,452 and \$13,688 into the pension plan until December 11, 2006, and March 10, 2008, respectively.

In addition, during the current audit period, the borough did not deposit its 2008, 2009 and 2010 state aid allocations into an eligible pension plan within the 30 day grace period allowed by Act 205. The municipality received its 2008, 2009 and 2010 state aid allocations on September 25, 2008, September 23, 2009, and September 26, 2010, respectively, but did not deposit \$15,633, \$13,779 and \$20,081 into its police pension plan until February 20, 2009, December 22, 2009, and November 24, 2010, respectively.

YARDLEY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension funds or the alternate funding mechanisms applicable to the respective pension plans.

Cause: The municipality failed to establish adequate internal control procedures to ensure the timely deposit of state aid.

Effect: Although the state aid allocations were eventually deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We again recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, for the years 2006 through 2010. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that municipal officials establish and implement adequate internal control procedures to ensure the timely deposit of state aid.

Management's Response: Municipal officials agreed with the finding without exception.

YARDLEY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Inconsistent Pension Benefits

Condition: The pension plan’s governing document, Resolution No. 91-5, as amended, contains a benefit provision that conflicts with the collective bargaining agreement between the police officers and the borough as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600</u>
Service-related disability benefit	Disability retirement benefit shall be equal to 50% of such member’s average applicable compensation reduced for the disability entitlements from Social Security and Workers’ Compensation.	In the event of any officer incurring an injury permanent disability, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough of Yardley Police Department and shall be calculated at a rate no less than fifty (50) per centum of the member’s salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act, shall have his or her disability benefits offset or reduced by the amount of such benefit.	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.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600 to ensure the sound administration of retirement benefits.

YARDLEY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan’s governing document and the collective bargaining agreement contained consistent benefit provisions that are in compliance with Act 600.

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

Recommendation: We 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 at their earliest opportunity to do so.

Management’s Response: Municipal officials agreed with the finding without exception.

YARDLEY BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension Audits, 406 Finance Building, Harrisburg, PA 17120.

YARDLEY 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, 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	\$ 384,907	\$ 331,210	\$ (53,697)	116.2%	\$ 143,359	(37.5%)
01-01-07	478,813	373,974	(104,839)	128.0%	111,152	(94.3%)
01-01-09	351,394	430,733	79,339	81.6%	115,450	68.7%

YARDLEY 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.

YARDLEY BOROUGH POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

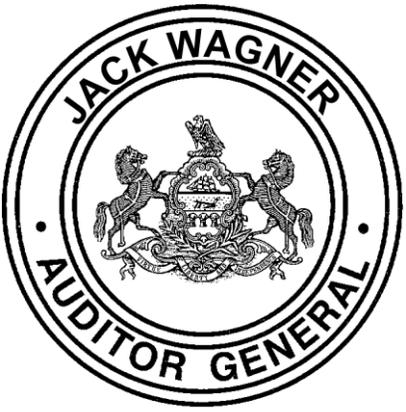
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 15,289	100.0%
2005	17,527	100.0%
2006	20,452	185.9%
2007	19,938	71.3%
2008	9,143	171.0%
2009	14,085	97.8%

YARDLEY 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, 2009
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 *	6.0%
Projected salary increases *	4.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



YARDLEY BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Yardley Borough Police Pension Plan  
Bucks County  
56 South Main Street  
Yardley, PA 19067

The Honorable Matthew Sinberg	Mayor
Mr. Joseph Hunter	Council President
Mr. William Winslade	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).