



CUMRU TOWNSHIP POLICE PENSION PLAN

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Commissioners
Cumru Township
Berks County
Mohnton, PA 19540

We have conducted a compliance audit of the Cumru Township Police Pension Plan for the period January 1, 2010 to December 31, 2012. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- Whether Deferred Retirement Option Plan (DROP) participants' benefit payments are properly determined in accordance with the provisions of the DROP and any other applicable laws and regulations.

Cumru 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 effective internal controls to provide reasonable assurance that the Cumru 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the Cumru 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 findings further discussed later in this report:

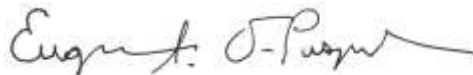
Finding No. 1 – Noncompliance With Prior Audit Recommendation - Pension Benefits Not In Compliance With Act 600 Provisions

Finding No. 2 – Noncompliance With Prior Audit Recommendation - Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Cumru Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

January 7, 2014



EUGENE A. DEPASQUALE
Auditor General

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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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Cumru 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 Cumru Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 141, 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. The plan was established May 2, 1967. Active members are required to contribute 3.5 percent of compensation to the plan. As of December 31, 2012, the plan had 23 active members, no terminated members eligible for vested benefits in the future and 18 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2012, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 50 and 25 years of service.

Early Retirement None

Vesting 100% after 12 years of service.

Retirement Benefit:

50% of average monthly pay based on last 36 months multiplied by the accrued benefit adjustment, plus \$100 per year of service in excess of 25 (maximum \$500).

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

After Retirement Eligibility A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

CUMRU TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Cumru Township has complied with the prior audit recommendation concerning the following:

- Improper Pension Benefit Calculation

The township adjusted the retiree's pension benefit and began paying the correct amount in April 2011. In addition, a one-time disbursement was made to the retiree for the retroactive benefit payments due, with interest, from the date of retirement through March 2011.

Status Of Prior Audit Recommendation

- Pension Benefits Not Authorized By Act 600

As disclosed in the prior 4 audit reports, the collective bargaining agreements between the township and its police officers for the periods January 1, 2004 to December 31, 2007, and January 1, 2008 to December 31, 2011, provided for the inclusion of lump-sum payments for unused sick and vacation days that were not earned during the final 36 month averaging period in pension benefit calculations, and provided for cost-of-living adjustments for surviving spouses, all of which are not authorized by Act 600. In the collective bargaining agreement for the period January 1, 2012 to December 31, 2014, the township eliminated these excess benefits for police officers hired on or after January 1, 2012. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing or future 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. During the current audit period, vacation days that were not earned during the final 36 month averaging period were included in the pension benefit calculation of a member who retired in July 2011. The retiree is receiving excess benefits of approximately \$35 per month. 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 current and future retirees on the township's future state aid allocations during future audits of the plan, which may require the township to reimburse any excess state aid received attributable to the excess pension benefits to the Commonwealth.

CUMRU TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

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

- Pension Benefits Not In Compliance With Act 600 Provisions
- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: As disclosed in our prior audit report, the pension plan’s governing document contains benefit provisions that conflict with the collective bargaining agreement between the township and its police officers and which are not in compliance with Act 600.

Furthermore, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Member contributions	Member contributions shall be eliminated until an actuarial study indicates the plan will no longer be actuarially sound in the absence of member contributions. In making such a determination, the employer agrees to instruct the plan actuary that before any contributions would be requested from the members, all state funding which may be attributable to the police officers by applying the unit funding formula in Act 205 shall have been allocated to the pension plan to offset any financial obligation.	The 2008-2011 collective bargaining agreement (CBA) states, “regardless of the funding status of the police pension fund as evidenced by the January 1, 2007 or the January 1, 2009 actuarial reports prepared pursuant to Act 205, police payroll deduction contributions to the police pension plan shall be 3.5% for the duration of the contract.” The 2012-2014 CBA continues this provision.	If covered by Social Security, members shall pay into the fund, monthly, an amount determined as follows: if the pension plan provides for no Social Security offset, 5% of total compensation. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Pre-vesting death benefit	A refund of the member's contributions to the Pension Fund shall be paid to his designated beneficiary if living or, if none is living, then to his estate.	Not addressed	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of eighteen years, or, if attending college, under or attaining the age of twenty-three years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member's investment in the pension fund, unless the member has designated another beneficiary for this purpose.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Survivor's benefit	The widow, or if no widow survives or if she survives and subsequently dies or remarries, then the child or children under the age of eighteen, shall be entitled to receive a pension calculated at the rate of fifty per centum (50%) of the pension the member was receiving or would have been receiving had he retired at the time of his death.	Upon the participant's death, the surviving spouse, or the dependent children under the age of 19, or under the age of 23 and attending college, shall receive a benefit equal to 50% of the officer's pension.	A lifetime survivor's benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. ("Attending college" shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	A monthly retirement benefit for life equal to fifty (50%) percent of the monthly average salary earned by such member during the last sixty months of his employment.	A disability pension equal to 50% of the participant's salary at the time the disability is incurred.	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.

In addition, the collective bargaining agreement contains a provision for a service increment which is in compliance with Act 600 but is not contained in the governing document, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service increment	Not addressed	Retiree shall receive a pension increase of one hundred dollars (\$100) per month for each completed year of service in excess of twenty-five years up to a maximum of five hundred dollars (\$500) per month after five completed years of service in excess of twenty-five years (30 years of service).	\$100 per month for each completed year of service in excess of 25 years up to a maximum of \$500 per month after 5 completed years of service in excess of 25 years.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - (Continued)

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

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent provisions that are in compliance with Act 600, as amended.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to ensure the plan's governing document and the collective bargaining agreement contain consistent provisions which are in compliance with Act 600, as amended, at their earliest opportunity to do so.

Management's Response: Turnover in township personnel has affected the ability to make sure all proper documentation is in order. The township manager stated going forward that she fully intends to make sure all documents comply and agree with each other.

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

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation

Condition: As disclosed in the prior audit report, actuarial valuation report form PC-201C, with a valuation date of January 1, 2009, submitted to the Public Employee Retirement Commission (PERC), contained incorrect information. During the current audit period, the January 1, 2011, actuarial valuation report submitted to PERC also contained incorrect information. The information was based on data supplied by the municipality to the plan's actuary. The members' contribution rate was 3.5 percent of compensation according to the collective bargaining agreement between the township and its police officers; however, the members' contribution rate was reported as 2.5 percent of compensation on the actuarial valuation report submitted to PERC.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the information submitted to the plan's actuary was consistent with the provisions contained in the collective bargaining agreement between the township and its police officers.

Effect: Although the municipality received its state aid allocations based on unit value and therefore did not receive excess state aid during the current audit period, because the municipality's state aid allocations are determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the actuary may result in the municipality receiving an incorrect allocation of state aid in the future.

In addition, although the township used the correct member contribution rate in the plan's minimum municipal obligations (MMOs) determined during the current audit period, because the information contained in the actuarial valuation report is used to determine the MMO, incorrect data on the actuarial valuation report may result in an erroneous MMO calculation in the future.

CUMRU TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We again recommend that in the future, plan officials review and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

Management Response: Turnover in township personnel has affected the ability to make sure all proper documentation is in order. The township manager stated she was going to correct the problem with the actuary immediately and avoid any discrepancies on the January 1, 2013, actuarial valuation report.

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

CUMRU 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, 2007, 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)]
01-01-07	\$ 7,607,618	\$ 8,121,373	\$ 513,755	93.7%	\$ 1,577,277	32.6%
01-01-09	7,691,387	9,907,864	2,216,477	77.6%	1,780,666	124.5%
01-01-11	8,160,227	10,492,911	2,332,684	77.8%	1,909,505	122.2%

Note: The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period subject to a corridor between 70 to 130 percent, and 80 to 120 percent of the market value of assets, respectively. 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.

CUMRU 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. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

CUMRU 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
2007	\$ 255,733	100.0%
2008	260,883	100.0%
2009	291,874	100.0%
2010	292,688	100.0%
2011	462,169	100.0%
2012	434,125	100.0%

CUMRU 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Plan assets are valued using the method used in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.5% per year

CUMRU TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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Mr. Tony Sacco	President, Board of Township Commissioners
Ms. Jeanne Johnston	Chief Administrative Officer

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