



**WARMINSTER TOWNSHIP POLICE  
PENSION PLAN**

**BUCKS COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2011 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 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, 2011 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 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. 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.

Warminster 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.

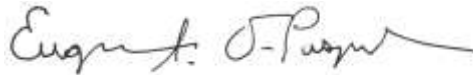
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Warminster Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the Warminster Township's internal controls as they relate to the Warminster 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 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 or conclude on it 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.



EUGENE A. DEPASQUALE  
Auditor General

February 28, 2014

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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 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. The plan was established December 2, 1957. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2012, the plan had 46 active members, 3 terminated members eligible for vested benefits in the future and 49 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	For participants hired on or after January 1, 2005, Age 50 and 25 years of service.  For participants hired before January 1, 2005, Age 50 and 25 years of service, or Age 55 and 20 years of service.
Early Retirement	20 years of service.
Vesting	100% after 12 years of service.

### Retirement Benefit:

50% of final 36 months average compensation.

### 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:

Greater of 50% of final average 36 months of compensation, or 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

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 And Unauthorized Pension Benefits



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 contains a service-related disability 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 noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600</u>
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.	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.  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.	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 noted below:

<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 definition of average applicable compensation contained in the plan’s governing document and the CBA could result in pension benefit determinations that are 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)

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

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, or payments for accumulated leave earned outside the pension averaging period.

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.

WARMINSTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

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

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.

Providing unauthorized pension benefits could increase the plan's pension costs and reduce 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 at their earliest opportunity to do so.

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, 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	\$ 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%
01-01-11	23,335,615	26,913,137	3,577,522	86.7%	4,444,343	80.5%

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 subject to a ceiling of 130% and 120% 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.

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. 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
2007	None	N/A
2008	\$ 35,039	200.2%
2009	65,794	113.3%
2010	76,868	110.7%
2011	547,410	100.0%
2012	587,624	100.0%

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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	16 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205 subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	In accordance with Act 600, however, not to exceed 5% in any one year.



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. Daniel McPhillips	Chairman, Board of Township Supervisors
Mr. Mark McKee	Vice-Chairman, Board of Township Supervisors
Mr. Richard Manfredi	Township Manager

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).