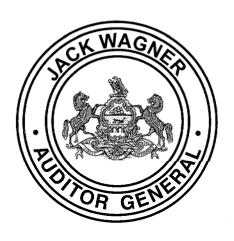
# BETHLEHEM TOWNSHIP POLICE PENSION PLAN NORTHAMPTON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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#### **BACKGROUND**

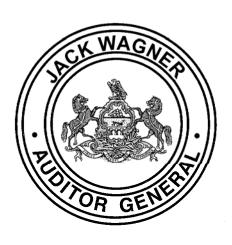
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Bethlehem 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 Bethlehem Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 5-2008, 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 Bethlehem Township Northampton County Bethlehem, PA 18020

We have conducted a compliance audit of the Bethlehem Township Police Pension Plan for the period January 1, 2005, to December 31, 2007. 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. Bethlehem 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 Bethlehem 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 Bethlehem 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 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

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

November 26, 2008

JACK WAGNER Auditor General

## BETHLEHEM TOWNSHIP POLICE PENSION PLAN STATUS OF PRIOR FINDING

### Compliance with Prior Audit Recommendation

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

### · Pension Benefits Not In Compliance With Act 600 Provisions

Municipal officials adopted Ordinance No. 5-2008, which contains a vesting benefit provision in compliance with Act 600.

### BETHLEHEM TOWNSHIP POLICE PENSION PLAN FINDING AND RECOMMENDATION

## <u>Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State</u> Aid

<u>Condition</u>: The township certified 1 ineligible police officer (2 units) and overstated payroll by \$29,093 in 2006 on Certification Form AG 385.

<u>Criteria</u>: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

<u>Cause</u>: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

<u>Effect</u>: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Since the township's state aid allocation was based on unit value, the effect of the incorrect certification of pension data on the township's state aid allocation is identified below:

Units	Unit	State Aid		
Overstated	Value	Overpayment		
2	\$ 3,089	\$ 6,178		

Recommendation: We recommend that the total excess state aid, in the amount of \$6,178, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

We also recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

### BETHLEHEM 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)
						Unfunded
			Unfunded			(Assets in
		Actuarial	(Assets in			Excess of)
		Accrued	Excess of)			Actuarial
	Actuarial	Liability	Actuarial			Accrued
Actuarial	Value of	(AAL) -	Accrued	Funded	Covered	Liability as a
Valuation	Assets	Entry Age	Liability	Ratio	Payroll	% of Payroll
Date	(a)	(b)	(b) - (a)	(a)/(b)	(c)	[(b-a)/(c)]
01-01-03	\$ 4,362,226	\$ 6,375,740	\$ 2,013,514	68.4%	\$ 1,457,726	138.1%
01-01-05	4,985,257	7,243,391	2,258,134	68.8%	1,704,501	132.5%
01-01-07	6,119,482	9,169,323	3,049,841	66.7%	2,068,130	147.5%

#### BETHLEHEM 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.

### BETHLEHEM 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
2002	\$ 115,755	100.0%
2003	207,180	100.0%
2004	241,161	100.0%
2005	563,548	100.0%
2006	595,553	105.3%
2007	660,994	100.0%

### BETHLEHEM 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 14 years

Asset valuation method Fair value

Actuarial assumptions:

Investment rate of return \* 7.0%

Projected salary increases \* 5.0%

\* Includes inflation at Not disclosed

Cost-of-living adjustments 4.0%

### BETHLEHEM TOWNSHIP POLICE PENSION PLAN REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell Governor Commonwealth of Pennsylvania

Bethlehem Township Police Pension Plan Northampton County 4225 Easton Avenue Bethlehem, PA 18020

Mr. Thomas J. Nolan President, Board of Township Commissioners

Mr. Jon A. Hammer Township Manager

Mr. Andrew Freda Director of Finance

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.