COMPLIANCE AUDIT

Bristol Borough Police Pension Plan

Bucks County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2016

April 2018

Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General

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EUGENE A. DEPASQUALE
AUDITOR GENERAL

Honorable Mayor and Borough Council
Bristol Borough
Bucks County
Bristol, PA 19007

We have conducted a compliance audit of the Bristol Borough Police Pension Plan for the period January 1, 2015 to December 31, 2016. We also evaluated compliance with some requirements subsequent to that period when possible. 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.

- We determined whether retirement benefits calculated for both of the plan members who retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the monthly pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014, 2016, and 2018, respectively, in accordance with Act 205 and whether 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 by comparing selected information to supporting source documentation.

Bristol Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Bristol 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 and as previously described, 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 procedures indicated that, in all significant respects, the Bristol 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 – Inconsistent Pension Benefit Provision

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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. As previously noted, one of the objectives of our audit of the Bristol Borough Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. **However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 59.2% as of January 1, 2017, which is the most recent data available.** We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

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

Eugene A. DePasquale

March 13, 2018

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 Bristol Borough Police Pension Plan is also governed by implementing regulations adopted by the former 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 Bristol Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 899, 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 plan was established November 1, 1959. Active members are required to contribute 6 percent of wages to the plan. As of December 31, 2016, the plan had 14 active members, no terminated members eligible for vested benefits in the future, and 12 retirees receiving pension benefits from the plan.

As of December 31, 2016, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of $100 per month for each full year of service in excess of 25 years, up to a maximum of $300 per month.

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:

Benefit equals 60% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

BRISTOL BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendations

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

- Inconsistent Pension Benefit Provision

  As disclosed in the 2 prior audit reports, the pension plan's governing document contained benefit provisions that conflicted with the collective bargaining agreement (CBA) between the police officers and the borough. And although our prior audit report covering the period January 1, 2012 to December 31, 2014 disclosed that the borough partially complied with the previous audit recommendation by revising some of the benefit provisions contained in the pension plan's governing document and CBA, the prior audit report also disclosed that the CBA still contained a service-related disability benefit provision that conflicts with the plan's governing document and is not in compliance with Act 600. This condition remained as disclosed in Finding No. 1 of this report.

- Pension Benefit Not Authorized By Act 600

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefit Provision

Condition: As disclosed in the Status of Prior Findings section of this report, although our prior audit report covering the period January 1, 2012 to December 31, 2014 disclosed that the borough partially complied with our audit recommendation by revising some of the benefit provisions contained in the pension plan's governing document and CBA; the prior audit report also disclosed that the CBA continued to maintain a service-related disability benefit provision that conflicts with the plan's governing document and is not in compliance with Act 600. This condition remains in the current CBA covering the period January 1, 2016 to December 31, 2019, as noted below:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Service-related disability	Any member who incurs a service-connected disability shall receive monthly benefits equal to 60% of his base salary at the time of disability. All disability payments under this Section shall be reduced by any Social Security benefits received for the same injury.	60% of average of earnings and total compensation paid in the last 36 months immediately preceding retirement or the disability retirement, offset by Social Security benefits received for the same injury.	A rate no less than 50% of the member's salary at the time of the disability offset by Social Security benefits received for the same injury.

In addition, the 2016-2019 CBA also denoted an increased length of service increment which is also inconsistent with the provision contained in the plan's governing document as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement
Length of service increment	…receive a length of service increment to their pension of $50 per month for each year of service in excess of 25 years up to a maximum benefit of $100.	…receive a length of service increment to his or her pension of One Hundred Dollars ($100) per month for each year of service in excess of twenty-five (25) years up to maximum additional monthly benefit of Three Hundred Dollars ($300).

Finding No. 1 – (Continued)

Furthermore, the plan's January 1, 2017, actuarial valuation reported the service-related disability benefit provision included in the plan's governing document.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the plan's governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with provisions of Act 600.

Cause: Municipal officials again failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation and consistencies among the varying plan documents.

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

Recommendation: We again recommend that municipal officials take appropriate action to ensure that the service-related disability benefit provisions contained in the CBA is consistent with the plan's governing document and in compliance with Act 600 at their earliest opportunity to do so. In addition, we recommend that municipal officials also take the necessary action to ensure the plan's governing document and the collective bargaining agreement contain a consistent length of service increment benefit provision at its earliest opportunity to do so.

Management Response: The Borough Solicitor will prepare an ordinance for advertisement on approval of Borough Council which will bring the Borough ordinance into compliance with the Collective Bargaining Agreement. The ordinance will, read "60% of average earnings" as it relates to service related disability.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation regarding the service-related disability provision. Plan officials should also address the length of service increment as noted above. Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600

Condition: As disclosed in the prior 2 audit reports, the CBA between police officers and the borough continues to provide for the inclusion of accrued leave payments earned outside the averaging period to be included in pension benefit calculations, which is not in compliance with Act 600.

Article 23F of the CBA between the borough and its police officers for the years 2016 through 2019, provides for a normal retirement benefit of 50 percent of average monthly earnings or compensation paid over a 36 month period immediately preceding retirement. Article 23C defines average monthly earnings and compensation as follows:

> (i) The "average monthly earnings and compensation" will include the amounts paid as part of the annual base wage, overtime pay, court time pay, accrued time-off with pay, vacation pay, holidays, sick pay, longevity increments, education incentive pay and other direct monetary compensation excluding, of course reimbursed expenses or payments made in lieu of expenses, i.e. non-salary (fringe benefits), or any other like benefits or allowances, e.g. uniform allowances. However, if and when, during the contract period, the Law, relating to the use of accrued benefits outside the three (3) year calculation period, is clarified, either by way of an un-appealed Commonwealth Court or Pennsylvania Supreme Court Decision, or by way of legislative change, then the calculation of the pension benefit shall be adjusted accordingly from the effective date of that clarification.

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.

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 payments for leave that were not earned during the pension computation period.

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

Finding No. 2 – (Continued)

Effect: During the current audit period, the plan continues paying pension benefits to a retiree in excess of those authorized by Act 600 due to the inclusion of leave earned outside the averaging period. As of the date of this report, the retiree is receiving excess benefits of $72 per month, which have totaled approximately $6,221 from the date of the member's retirement through the date of this audit report.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, 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 the borough take appropriate action to exclude lump-sum payments for accumulated unused leave earned outside the pension computation period from pension calculations. To the extent that the borough has already obligated itself to pay benefits to existing 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. In addition, the improper inclusion of lump-sum payments for accumulated unused leave earned outside the pension computation period in the pension calculations will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact of the unauthorized benefits on the plan's state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

Management Response: As previously disclosed by officials, as noted in the collective bargaining agreement, "However, if and when, during the contract period, the Law, relating to the use of accrued benefits outside the three (3) year calculation period, is clarified, either by way of an un-appealed Commonwealth Court of Pennsylvania Supreme Court Decision, or by way of legislative change, then the calculation of pension benefit shall be adjusted accordingly from the effective date of that clarification."

Auditor's Conclusion: Based on the Criteria previously cited, the definition of "average monthly earnings and compensation" contained in the collective bargaining agreement is not in compliance with Act 600. Therefore, the finding and recommendation remain as stated.

BRISTOL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 8 and 9 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2016

	2015	2016
Total Pension Liability		
Service cost	$ 139,347	$ 146,314
Interest	569,081	598,598
Benefit payments, including refunds of member contributions	(296,141)	(396,714)
Net Change in Total Pension Liability	412,287	348,198
Total Pension Liability – Beginning	7,122,234	7,534,521
Total Pension Liability - Ending (a)	$ 7,534,521	$ 7,882,719
Plan Fiduciary Net Position		
Contributions – employer	$ 246,484	$ 326,947
Contributions – state aid	109,783	122,490
Contributions – member	99,382	90,859
Net investment income	(113,408)	337,502
Benefit payments, including refunds of member contributions	(296,141)	(396,714)
Administrative expense	(5,550)	(2,045)
Net Change in Plan Fiduciary Net Position	40,550	479,039
Plan Fiduciary Net Position – Beginning	4,030,459	4,071,009
Plan Fiduciary Net Position - Ending (b)	$ 4,071,009	$ 4,550,048
Net Pension Liability - Ending (a-b)	$ 3,463,512	$ 3,332,671
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.0%	57.7%
Estimated Covered Employee Payroll	$ 1,315,401	$ 1,562,698
Net Pension Liability as a Percentage of Covered Employee Payroll	263.3%	213.3%

BRISTOL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the borough as of December 31, 2015 and 2016, calculated using the discount rate of 8.00%, as well as what the borough's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability - 12/31/15	$ 4,368,681	$ 3,463,512	$ 2,703,496
Net Pension Liability - 12/31/16	$ 4,268,733	$ 3,332,671	$ 2,545,886

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2007	$ 284,944	$ 284,944	$ -	$ 965,895	29.5%
2008	245,512	245,512	-	1,136,648	21.6%
2009	256,366	256,366	-	1,285,341	19.9%
2010	214,162	214,162	-	1,208,600	17.7%
2011	248,675	248,675	-	1,280,827	19.4%
2012	263,735	263,735	-	1,314,746	20.1%
2013	222,302	222,302	-	1,306,348	17.0%
2014	277,155	277,155	-	1,405,945	19.7%
2015	356,267	356,267	-	1,315,401	27.1%
2016	449,437	449,437	-	1,562,698	28.8%

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2016	8.17%
2015	(2.77%)

BRISTOL 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. The historical information, beginning as of January 1, 2013, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-13	$ 3,628,729	$ 5,899,980	$ 2,271,251	61.5%
01-01-15	4,197,290	7,122,234	2,924,944	58.9%
01-01-17	4,862,777	8,216,882	3,354,105	59.2%

Note: The market values of the plan's assets at 01-01-13, 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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.

BRISTOL 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.

BRISTOL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
NOTES TO SUPPLEMENTARY SCHEDULES
(UNAUDITED)

The information presented in the 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	10 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	Lesser of CPI increase or 4% per year, 30% maximum increase

BRISTOL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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