

BRISTOL BOROUGH POLICE PENSION PLAN

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



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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 Bristol Borough Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

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

The Bristol Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 899, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers.



The Honorable Mayor and Borough Council
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, 2006 to December 31, 2008. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. 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 an internal control structure 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. To assist us in planning and performing our audit, we obtained an understanding of the borough's internal control structure as it relates to the borough'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 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 And Unauthorized Pension Benefits
- Finding No. 2 – Partial Compliance With Prior Audit Recommendation –
Pension Benefit Not Authorized By Act 600
- Finding No. 3 – Partial Compliance With Prior Audit Recommendation –
Failure To Adopt Benefit Provisions Mandated By Act 30

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 Bristol Borough and, where appropriate, their responses have been included in the report.

May 29, 2009

JACK WAGNER
Auditor General

BRISTOL BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Bristol Borough has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The borough reimbursed \$22,809 to the Commonwealth for the overpayment of state aid.

Partial Compliance With Prior Audit Recommendations

Bristol Borough has partially complied with the prior audit recommendations concerning the following:

- Pension Benefit Not Authorized By Act 600

The borough enacted Ordinance No. 1236, which amended the definition of base salary to comply with Act 600; however, the collective bargaining agreement continues to grant a benefit that is not authorized by Act 600, as further discussed in the Findings and Recommendations section of this report; and

- Failure To Adopt Benefit Provisions Mandated By Act 30 Of 2002

The borough enacted Ordinance No. 1236, which amended the survivor benefit provision to comply with Act 600, as amended by Act 30 of 2002; however, the killed-in-service benefit provision and the definition of attending college are not in compliance with Act 600, as amended by Act 30 of 2002, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

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

- Inconsistent And Unauthorized Pension Benefits

BRISTOL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan’s governing document contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the borough and are not authorized by Act 600, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600</u>
Vesting	<p>Section 707 (2): At age 55 with 12 years of service a member receives a 50% pension multiplied by the ratio of number of years of service divided by 25.</p> <p>Section 732: with 12 years of service a member receives a 50% pension multiplied by the ratio of number of years of service divided by the number of years he would have rendered had he continued to work until his superannuation retirement date. Payable upon reaching superannuation retirement date.</p>	<p>With 12 years of service a member receives a 50% pension multiplied by the ratio of number of years of service divided by 25. Benefit is payable at age 52 if hired before 1/1/95 and payable at age 51 if hired 1/1/95 or after.</p>	<p>With 12 years of service a member receives a 50% pension benefit multiplied by the ratio of number of years of service divided by the number of years member would have rendered had he continued to work until his superannuation retirement date. Payable upon reaching superannuation retirement date.</p>
Early retirement	<p>At age 52 with 12 years of service a member can receive a reduced pension.</p>	<p>Not addressed</p>	<p>Optional benefit for an actuarially reduced pension after 20 years of service.</p>

BRISTOL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600
Service-related disability benefit	60% of base salary offset by workman's compensation.	60% of total compensation.	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.
Member contribution rate	2.5% of total monthly compensation.	2.5% of gross compensation.	5% to 8% of compensation. Can be reduced or eliminated, by annual resolution.

In addition, actuarial valuation report forms 201C, with valuation dates of January 1, 2005, and January 1, 2007, submitted to the Public Employee Retirement Commission, reported the benefit provisions included in the collective bargaining agreement.

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 pension plan's benefit structure should be in compliance with Act 600 provisions.

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

Effect: 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, in the future, the increased costs to the pension plan as a result of the excess pension benefits could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Furthermore, 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 ensure the plan's governing document and collective bargaining agreement contain consistent benefit provisions that are in compliance with Act 600 at their earliest opportunity to do so.

BRISTOL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We also recommend that the borough eliminate all benefits not authorized by Act 600 at its earliest opportunity to do so. 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. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the unauthorized benefits on the plan's future state aid allocations and submit this information to the department.

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

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

Condition: The borough partially complied with the prior audit recommendation by enacting Ordinance No. 1236 which amended the definition of base salary to comply with Act 600; however, the collective bargaining agreement between the police officers and the borough continues to grant a benefit that is not authorized by Act 600.

Article 23F of the collective bargaining agreement between the borough and its police officers for the years 2003 through 2010, provides for a normal retirement benefit of 50 percent of average actual 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 compensation (fringe benefits), or any other like payments or allowances, e.g. uniform allowances.

(ii) And, for those police employees who are hired after September 1, 1983, the phrase "average monthly earnings and compensation" will include the annual base wage, accrued time off with pay, vacation pay, and holiday.

BRISTOL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

These definitions could result in the inclusion of payments for accumulated unused leave earned outside the pension computation period in the pension calculations of retiring police officers.

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 was not earned during the pension computation period.

Cause: The current collective bargaining agreement does not expire until December 31, 2010.

Effect: Although no excess benefits were included in pension benefit calculations during the audit period, 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. The provision of unauthorized pension benefits could also 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, at its earliest opportunity to do so, 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. Should the municipality fail to exclude unauthorized lump-sum payments from pension calculations at its next opportunity to do so, the portion of the pension benefits attributable to 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.

Management Response: Municipal officials agreed with finding without exception.

BRISTOL BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Partial Compliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30 Of 2002

Condition: The borough partially complied with the prior audit recommendation by enacting Ordinance No. 1236, which included a lifetime survivor’s benefit provision; however, the borough has failed to amend the plan’s governing document to include the following benefit provisions mandated by Act 600, as amended by Act 30 of 2002:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Killed-in-service benefit	100% of the member’s monthly pension benefit.	100% of the member’s salary at the time of death.
Definition of “attending college”	None	“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.

Criteria: The police pension plan’s benefit structure should be in compliance with Act 600, as amended by Act 30 of 2002.

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

Effect: 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 bring the police pension plan’s benefit structure into compliance with Act 600, as amended, by Act 30 of 2002, at their earliest opportunity to do so.

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

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, 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)
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)]
01-01-03	\$ 2,563,697	\$ 3,280,267	\$ 716,570	78.2%	\$ 570,716	125.6%
01-01-05	2,417,787	4,194,465	1,776,678	57.6%	863,508	205.8%
01-01-07	2,951,374	4,195,096	1,243,722	70.4%	1,015,056	122.5%

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.

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.

BRISTOL BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 44,126	100.0%
2004	44,700	100.0%
2005	137,418	100.0%
2006	260,973	100.0%
2007	284,944	100.0%
2008	245,512	100.0%

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

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	Shall not exceed 4.0% per year

BRISTOL BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Bristol Borough Police Pension Plan
Bucks County
250 Pond Street
Bristol, PA 19007

The Honorable Joseph Saxton	Mayor
Mr. Ralph DiGuseppe	Council President
Mr. James Dillon	Borough Manager
Ms. Angela Incollingo	Finance Officer

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.