

CITY OF SHARON POLICE PENSION PLAN

MERCER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, TO DECEMBER 31, 2010



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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 City of Sharon 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1178, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

- Act 317 - The Third Class City Code, Act of June 23, 1931 (P.L. 932, No. 317), as amended, 53 P.S. § 35101 et seq.

The City of Sharon Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Chapters 286 and 287 of the city's codified ordinances. The plan is also affected by the provisions of collective bargaining agreements between the city and its police officers.



City Council
City of Sharon
Mercer County
Sharon, PA 16146

We have conducted a compliance audit of the City of Sharon Police Pension Plan for the period January 1, 2009, to December 31, 2010. 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 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. The City of Sharon contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the city's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

City officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the City of Sharon 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 city's internal controls as they relate to the city'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 the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the City of Sharon 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 Benefit Provisions

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 the City of Sharon and, where appropriate, their responses have been included in the report.

November 15, 2011

JACK WAGNER
Auditor General

CITY OF SHARON POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The City of Sharon has complied with the prior audit recommendation concerning the following:

- Procurement Of Consulting Services Without Written Contract

During the current audit period, the city did not procure additional consulting services. On September 18, 2009, Act 44 of 2009 was signed into law with provisions relating to the procurement of professional services contracts. The city's compliance with Act 44 of 2009 will be evaluated during future audits of the plan.

Noncompliance With Prior Audit Recommendation

The City of Sharon 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 Benefit Provisions

CITY OF SHARON POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefit Provisions

Condition: As disclosed in the prior audit report, the city adopted Ordinance No. 07-09 effective January 1, 2008. Pursuant to this ordinance, police officers hired as of January 1, 2008, are subject to the provisions of the Third Class City Code. The collective bargaining agreement for the period January 1, 2008, to December 31, 2010, between the city and its police officers contains a vesting provision that is not consistent with Ordinance No. 07-09 and is not in compliance with the Third Class City Code. In addition, Ordinance No. 07-09 and the collective bargaining agreement contain a nonservice-related disability survivor benefit that is not in compliance with the Third Class City Code, as noted below:

<u>Benefit Provision</u>	<u>Ordinance No. 07-09</u>	<u>Collective Bargaining Agreement</u>	<u>Third Class City Code</u>
Vesting	Vested Interest means a member of the Association who has attained twelve (12) or more years of Service shall obtain a vested interest in the plan.	If officer terminates his employment and has completed no less than ten (10) full years of eligible service, pension shall vest.	A minimum of 12 years of full-time service required to vest retirement benefits.
Nonservice-related disability survivor benefit	Paid to the surviving spouse until the date of death of the surviving spouse, then to the child or children under age 18.	Paid to the surviving spouse until the date of death of the surviving spouse.	For families, a continuation of the disability benefits payment to the spouse until death or remarriage, then to the child or children under age 18.

Criteria: Ordinance No. 07-09 and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with the Third Class City Code for police officers hired as of January 1, 2008.

Cause: The collective bargaining agreement between the city and its police officers effective January 1, 2011, was in arbitration and settled in January of 2012. The city was unable to resolve these issues through the collective bargaining process.

CITY OF SHARON POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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

Furthermore, providing unauthorized pension benefits could increase 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 and 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 that Ordinance No. 07-09 and the collective bargaining agreement contain consistent benefit provisions in accordance with the Third Class City Code for police officers hired after January 1, 2008, at their earliest opportunity to do so.

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

CITY OF SHARON 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, 2005, 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)]
01-01-05	\$ 9,203,114	\$ 10,010,869	\$ 807,755	91.9%	\$ 1,439,890	56.1%
01-01-07	9,074,131	10,008,088	933,957	90.7%	1,459,418	64.0%
01-01-09	8,573,807	10,223,026	1,649,219	83.9%	1,399,831	117.8%

Note: The market values of the plan's assets at 01-01-05 and 01-01-07 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses at 130% of market value. These methods 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.

CITY OF SHARON 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.

CITY OF SHARON POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

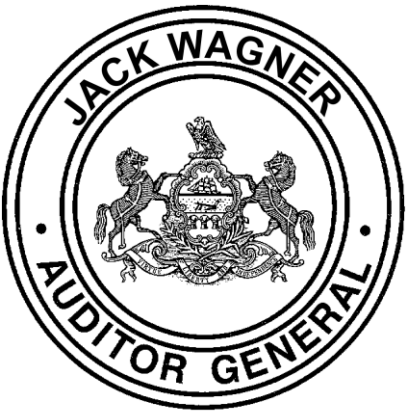
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 202,279	100.0%
2006	206,862	100.0%
2007	251,124	100.0%
2008	264,075	100.0%
2009	269,443	100.0%
2010	238,845	100.0%

CITY OF SHARON 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	4.5%
* Includes inflation at	3.0%
Cost-of-living adjustments	None assumed



CITY OF SHARON POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

City of Sharon Police Pension Plan
Mercer County
155 West Connelly Boulevard
Sharon, PA 16146

Mr. Frank P. Connelly Council President

Mr. Scott Andrejchak City Manager

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.