

**EASTERN PIKE REGIONAL POLICE PENSION PLAN**

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

The Eastern Pike Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 84, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the commission officials and its police officers.





Board of Commissioners  
Eastern Pike Regional Police Commission  
Pike County  
Matamoras, PA 18336

We have conducted a compliance audit of the Eastern Pike Regional 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The objective of the audit was 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 this objective.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Eastern Pike Regional 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 commission's internal controls as they relate to the commission's compliance with those requirements and that we considered to be significant within the context of our audit objective, 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 objective.

The results of our tests indicated that, in all significant respects, the Eastern Pike Regional 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 – Failure To Adopt Benefit Provisions Mandated By Act 30

Finding No. 2 – Inconsistent Member Contribution Deductions

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 Eastern Pike Regional Police Commission and, where appropriate, their responses have been included in the report.

September 7, 2011

JACK WAGNER  
Auditor General

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Adopt Benefit Provisions Mandated By Act 30

Condition: On April 17, 2002, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Commission officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	A benefit equal to 50% of the participant’s average monthly compensation, based on the last 36 months of compensation, reduced by Federal Social Security and/or Worker’s Compensation programs.	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.
Pre-vesting death benefit	Not provided	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of eighteen years, or, if attending college, under or attaining the age of twenty-three years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member’s investment in the pension fund, unless the member has designated another beneficiary for this purpose.
Definition of “attending college”	Not provided	“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.

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Cause: Commission officials were not aware of the 2002 amendment to Act 600 or their responsibility to update the plan's benefit structure, as necessary, to comply with it.

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 recommend that commission 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, at their earliest opportunity to do so.

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

Finding No. 2 – Inconsistent Member Contribution Deductions

Condition: During and subsequent to the current audit period, commission officials are using various contribution rates when deducting members' contributions. The contribution rates vary between 2 and 4 percent depending on the individual's prior employer or whether they are new members of the plan.

Criteria: Section 6(a) of Act 600 states, in part:

Members shall pay into the fund, monthly, an amount equal to not less than five per centum nor more than eight per centum of monthly compensation. Where positions covered by the fund are included in an agreement under the Federal Social Security Act, members shall pay into the fund, monthly, an amount determined as follows: (i) on compensation on which social security taxes are payable, at a rate calculated by subtracting from five per centum the product obtained by multiplying three per centum by such offset percentage; and (ii) on compensation in excess of that on which social security taxes are payable, if any, five per centum.

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Ordinance No. 84, as amended, at Section 5.2 states, in part:

Where positions covered by the plan are included in an agreement under the Federal Social Security Act, monthly contributions paid to the plan by the participants shall be at a rate calculated by multiplying the Social Security offset percentage (75%) by three percent and then subtracting the resultant percentage from five percent. Such contributions shall be on that portion of monthly compensation for which Social Security taxes are paid.

Contributions to the plan paid by the participants on that portion of monthly compensation that exceeds the amount for which Social Security taxes are paid shall be at the rate of five percent.

Therefore, the members' contribution rate should be set at 2.75 percent of compensation and 5 percent of compensation on that portion of monthly compensation that exceeds the amount for which Social Security taxes are paid.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that member contributions were deducted in accordance with the provisions of the plan's governing document and Act 600 provisions.

Effect: Plan members are not contributing to the plan on a uniform basis. In addition, insufficient members' contributions could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that commission officials deduct member contributions in accordance with the provisions of the plan's governing document and Act 600 provisions.

Furthermore, commission officials should review all prior members' contributions made to the pension plan to determine that each plan member contributed the proper amount to the plan.

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

EASTERN PIKE REGIONAL 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, 2009, 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)]
01-01-09	\$ 759,603	\$ 754,288	\$ (5,315)	100.7%	\$ 334,013	(1.6%)

Generally accepted accounting principles require the above data to be presented as of the plan's actuarial valuation dates for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

EASTERN PIKE REGIONAL 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.

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	None	N/A
2010	\$ 55,127	193.9%

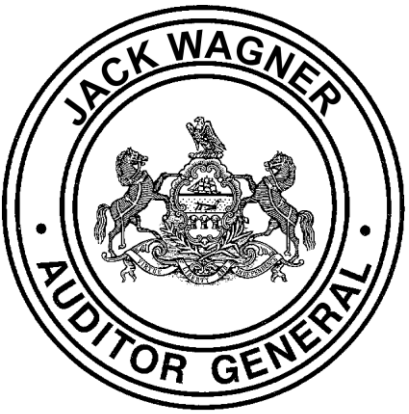
Generally accepted accounting principles require the above data to be presented for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.



EASTERN PIKE REGIONAL 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	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.0%



EASTERN PIKE REGIONAL POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Eastern Pike Regional Police Pension Plan  
Pike County  
10 Avenue I  
Matamoras, PA 18336

Mr. Richard Gassman                      Chairman, Board of Commissioners

Ms. Barbara Gillette                      Chief Administrative 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](http://www.auditorgen.state.pa.us).