

EDDYSTONE BOROUGH POLICE PENSION PLAN

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, 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 Eddystone 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 Eddystone Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 543, 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
Eddystone Borough
Delaware County
Eddystone, PA 19022

We have conducted a compliance audit of the Eddystone Borough Police Pension Plan for the period January 1, 2006, 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 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.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Eddystone 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 Eddystone 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 – Failure To Adopt Benefit Provision Mandated By Act 30 Of 2002
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Appoint A Chief Administrative Officer
- Finding No. 3 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

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

January 30, 2009

JACK WAGNER
Auditor General

EDDYSTONE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

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

- Failure To Adopt Benefit Provision Mandated By Act 30 of 2002
- Failure To Appoint A Chief Administrative Officer

EDDYSTONE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30 Of 2002

Condition: As disclosed in our prior audit report, 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. Municipal officials have not amended the police pension plan’s governing document to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document (Ordinance 543, as amended)</u>	<u>Act 600 (as amended)</u>
Survivor’s benefit	In the event a member dies after having retired, or dies while still active but after becoming eligible to retire, then the spouse shall be entitled, during the spouse’s lifetime or so long as the spouse does not remarry, to receive a pension equal to fifty percent (50%) of the pension the member was receiving or would have received had the member been eligible for a superannuation pension at the time of the member’s death. If no spouse survives, or if the spouse survives and subsequently dies or remarries, then the child or children under the age of eighteen of the member shall be entitled to receive the same pension, which shall then cease at age eighteen.	The surviving spouse of a member of the police force or a member who retires on pension who dies or if no spouse survives or if he or she survives and subsequently dies, then the child or children under the age of eighteen years or if attending college, under or attaining the age of twenty-three years, of a member of the police force or a member who retires on pension who dies shall during her lifetime in the case of a surviving spouse or until reaching the age of eighteen years or if attending college, under or attaining the age of twenty-three years, in the case of a child or children, be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death.

EDDYSTONE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document (Ordinance 543, as amended)</u>	<u>Act 600 (as amended)</u>
Killed in service benefit	In the event that a police officer is killed in service, his widow or, if no widow survives or if she survives and subsequently dies or remarries, then the child or children under 18 years of age should, during her lifetime or so long as she does not remarry in the case of a widow, or until reaching the age of 18 years in the case of a child or children, be entitled to receive a pension calculated at the rate of 50% of the pension the member would have been receiving had he been retired and receiving full pension at the time of his death.	Pension for the families of members killed in service shall be calculated at one hundred per centum of the member's salary at the time of death.

The collective bargaining agreement between the borough and its police officers for the period January 1, 2005, to December 31, 2008, states that the pension ordinance and all other pension plan documents shall be amended to incorporate all mandatory improvements to the pension benefits required by Act 30 of 2002. Although the benefits required by Act 30 are reflected in the plan's Act 205 actuarial valuation reports, they have not been incorporated into the plan's governing document.

Criteria: All pension plan documents should be consistent and in compliance with Act 600, as amended.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the plan's governing document was amended to incorporate the benefit changes mandated by Act 30 of 2002.

Effect: Inconsistent plan documents could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

EDDYSTONE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, amend the plan’s governing document, as necessary, to reflect all benefit obligations of the pension plan.

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Appoint A Chief Administrative Officer

Condition: As disclosed in our prior audit report, municipal officials did not appoint a chief administrative officer (CAO) for the pension plan by ordinance, resolution or by a motion recorded in the minutes of a borough council meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

Municipal officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the municipality with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

EDDYSTONE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials did not comply with the Act 205 requirements because there was a recent turnover of plan officials.

Effect: Failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected or delayed and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and pension plan, we again recommend that the CAO be formally appointed by ordinance, resolution or motion recorded in the minutes of a borough council meeting. Such ordinance, resolution or motion should detail the CAO's responsibilities and be filed with other plan documents.

Management's Response: Municipal officials enacted Resolution No. 4-09 on February 9, 2009, which appointed a chief administrative officer for the pension plan.

Auditor's Conclusion: Based on the management response, municipal officials have complied with the finding recommendation.

Finding No. 3 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality did not timely pay the \$122,980 minimum municipal obligation (MMO) that was due to the police pension plan for the year 2007, as required by Act 205. On October 2, 2007, \$51,302 was deposited into the police pension plan which represents the 2007 state aid allocation; however, the remaining MMO balance of \$71,678 was not deposited into the plan until August 14, 2008.

Criteria: Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: Plan officials failed to establish adequate internal control procedures to ensure the 2007 MMO was paid in accordance with Act 205 requirements.

EDDYSTONE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The failure to timely pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that the municipality pay the interest due to the police pension plan, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend the borough establish adequate internal control procedures to ensure the plan's MMO is paid in accordance with Act 205 requirements.

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

EDDYSTONE 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	\$ 1,290,966	\$ 1,407,773	\$ 116,807	91.7%	\$ 433,135	27.0%
01-01-05	1,471,615	1,930,250	458,635	76.2%	576,413	79.6%
01-01-07	1,659,405	2,275,833	616,428	72.9%	536,386	114.9%

Note: The actuarial value of assets as of 01-01-03, 01-01-05 and 01-01-07, was determined in accordance with (1) subject to the limitation described in (2) below:

- (1) The actuarial value of assets as of the last valuation date plus non-investment increases less non-investment decreases since the last valuation date plus interest credited at the last valuation date plus interest credited at the last valuation's assumed interest rate assuming non-investment increases and decreases occur at the mid-point between the last and current valuation date; and
- (2) The actuarial value of assets determined under (1) will be limited to a maximum of 115% and a minimum of 85% of the fair market value of assets as the current valuation date.

EDDYSTONE 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.

EDDYSTONE 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
2002	\$ 48,285	100.0%
2003	64,613	101.1%
2004	85,306	100.0%
2005	89,504	101.8%
2006	97,341	100.0%
2007	122,980	100.0%

EDDYSTONE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(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	12 years
Asset valuation method	As described on page 11
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	Increased annually by the Consumer Price Index increase for the Philadelphia Area limiting the total retirement benefit to 75% of the final average salary or 130% of the original retirement benefit.

EDDYSTONE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Eddystone Borough Police Pension Plan
Delaware County
1300 East 12th Street
Eddystone, PA 19022

The Honorable Ralph Orr	Mayor
Mr. Thomas Orio	Council President
Ms. Francie Howat	Borough 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.