

EDWARDSVILLE BOROUGH POLICE PENSION PLAN

LUZERNE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2008



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BACKGROUND

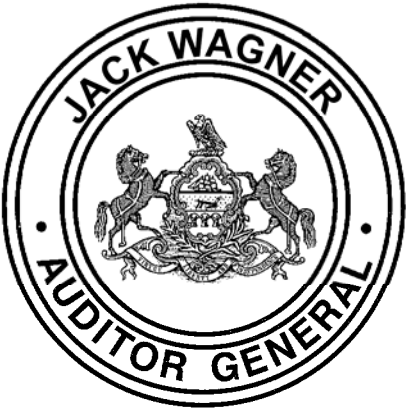
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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 Edwardsville 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 Edwardsville Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of an ordinance dated December 20, 1957, 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
Edwardsville Borough
Luzerne County
Edwardsville, PA 18704

We have conducted a compliance audit of the Edwardsville Borough Police Pension Plan for the period January 1, 2007, 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 finding 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. Edwardsville Borough contracted with an independent certified public accounting firm for annual audits of its general purpose 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 Edwardsville 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, 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 Edwardsville 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 –
Improper Payment Of 2002 Special Ad Hoc Postretirement
Adjustment

Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of
The Plan

Finding No. 3 – Improper Survivor Benefit

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

January 27, 2010

JACK WAGNER
Auditor General

EDWARDSVILLE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Improper Payment Of 2002 Special Ad Hoc Postretirement Adjustment

EDWARDSVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Payment Of
2002 Special Ad Hoc Postretirement Adjustment

Condition: As disclosed in the prior audit report, in July of 2006, municipal officials improperly granted and paid a 2002 special ad hoc postretirement adjustment in the amount of \$254 a month to a surviving spouse whose husband passed away in January of 1990. In addition, an improper lump-sum retroactive payment of \$14,509 was also paid to the surviving spouse in August of 2006.

Criteria: Section 401 of Act 147, as amended, states:

Entitlement to 2002 special ad hoc postretirement adjustment. A municipal retirement system shall pay a retired police officer or firefighter a special ad hoc postretirement adjustment under this chapter if all of the following apply:

- (1) The retiree has terminated active employment with the municipality as a police officer or firefighter.
- (2) The retiree is receiving a retirement benefit from a municipal retirement system on the basis of active employment with the municipality as a police officer or firefighter. (Emphasis added)
- (3) The retiree began receiving the retirement benefit before January 1, 1996.

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

Effect: The surviving spouse has received unauthorized special 2002 special ad hoc postretirement adjustment payments totaling \$24,669 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.

EDWARDSVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that municipal officials discontinue the payment of the special 2002 ad hoc postretirement adjustment to the surviving spouse.

We also recommend that municipal officials consult with the borough’s solicitor to determine if the police pension plan should be reimbursed for the unauthorized benefit payments made to the surviving spouse.

Management’s Response: Municipal officials indicated that they would provide a written response to this finding within 10 days; however, no such response has been provided.

Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality did not fully pay the minimum municipal obligation (MMO) that was due to the police pension plan for the years 2007, 2008 and 2009, as required by Act 205. The municipality had unpaid MMO balances of \$7,393, \$5,469, and \$3,052 for the years 2007, 2008 and 2009, respectively.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

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

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, 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. . . .

EDWARDSVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

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

Due to the municipality's failure to fully pay the 2007, 2008 and 2009 MMOs by the December 31, deadlines each year, the municipality must add the delinquent MMO balances to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMOs due to the police pension plan for the years 2007, 2008 and 2009, with interest, 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.

Furthermore, we recommend that plan establish adequate internal control procedures to ensure the MMO is paid in accordance with Act 205 funding requirements.

Management's Response: Municipal officials indicated that they would provide a written response to this finding within 10 days; however, no such response has been provided.

Finding No. 3 – Improper Survivor Benefit

Condition: In June of 2007, plan officials improperly granted and paid a survivor benefit, in the amount of \$695 per month, prior to the surviving spouse's eligibility to receive the benefit. The benefit payments should not have commenced until April of 2012, which is what would have been the deceased police officer's superannuation retirement date.

Criteria: According to the provisions of Act 600, where a deceased plan member has met the service requirements for vesting but has not met the age and/or service requirements for a normal retirement benefit, the surviving spouse would be entitled to fifty percent of the member's vested benefit amount commencing on what would have been the member's superannuation retirement date, payable until the survivor's death. If no spouse survives, the benefit would be payable to the member's child or children until age 18 or age 23, if attending college.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the surviving spouse's benefit payment would not commence until the date authorized by Act 600.

EDWARDSVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Effect: The plan is paying a survivor pension benefit in excess of what is authorized by Act 600. The surviving spouse is receiving excess benefits of \$695 per month, which totaled approximately \$21,545 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 recommend the municipal officials discontinue paying the improper survivor's benefit until what would have been the deceased police officer's superannuation retirement date.

We also recommend that municipal officials consult with the borough's solicitor to determine if the police pension plan should be reimbursed for the unauthorized benefit payments made to the surviving spouse.

Management's Response: Municipal officials conferred with their legal counsel who appears to agree with the finding as issued. Accordingly, the borough has stopped any further payments to the surviving spouse until April of 2012. In addition, the borough is exploring options for making the fund whole as a result of what appears to be premature payments to the surviving spouse.

Auditor's Conclusion: Based on the management response, it appears municipal officials have partially complied with the finding recommendation. Full compliance will be evaluated during our next audit of the plan.

EDWARDSVILLE 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	\$ 1,226,141	\$ 1,147,933	\$ (78,208)	106.8%	\$ 275,883	(28.3%)
01-01-05	1,448,950	1,385,062	(63,888)	104.6%	214,386	(29.8%)
01-01-07	1,525,165	1,450,582	(74,583)	105.1%	221,044	(33.7%)

EDWARDSVILLE 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.

EDWARDSVILLE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

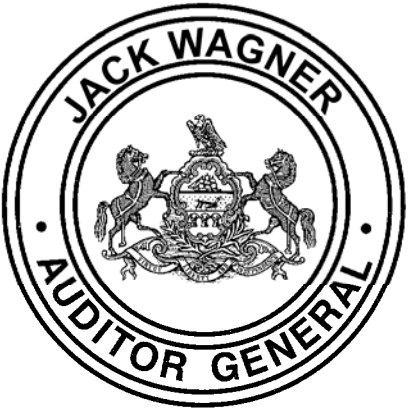
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 38,191	101.2%
2004	39,832	120.7%
2005	42,506	100.0%
2006	37,325	105.5%
2007	46,391	84.1%
2008	38,175	85.7%

EDWARDSVILLE 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	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	3.0%



EDWARDSVILLE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Edwardsville Borough Police Pension Plan
Luzerne County
470 Main Street
Edwardsville, PA 18704

The Honorable Bernard J. Dubaskas	Mayor
Mr. David Stochla	Council President
Mr. Charles Szalkowski	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.