

**ELL-CO REGIONAL POLICE PENSION PLAN**

**WASHINGTON COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2007**





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ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System



## 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 ELL-CO 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The ELL-CO Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1 of 2000, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the regional police department and its police officers.

Due to the discontinuance of its police force, the ELL-CO Regional Police Board passed Resolution No. 1 of 2008, electing to withdraw the police pension plan from the Pennsylvania Municipal Retirement System effective January 31, 2008.





ELL-CO Regional Police Board  
Washington County  
Ellsworth, PA 15331

We have conducted a compliance audit of the ELL-CO Regional Police Pension Plan for the period January 1, 2005, 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 the objective identified above. The ELL-CO Regional Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Plan officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the ELL-CO Regional 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 plan's internal control structure as it relates to the plan'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 objective.

The results of our tests indicated that, in all significant respects, the ELL-CO 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 finding further discussed later in this report:

Finding – Return Of Unused Monies To The Commonwealth

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 ELL-CO Regional Police Board and, where appropriate, their responses have been included in the report.

May 5, 2008

JACK WAGNER  
Auditor General

ELL-CO REGIONAL POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Return Of Unused Monies To The Commonwealth

Condition: The ELL-CO Regional Police Department has not employed a full-time paid police officer since September 1, 2006. In addition, effective January 31, 2008, the ELL-CO Police Board approved Resolution No. 1 of 2008, which authorized the withdrawal of the plan’s assets from PMRS. However, as of the date of this audit report, the police board has not determined the amount of unused funds that need to be reimbursed to the Commonwealth. The unreimbursed funds include the \$2,083 state aid allocation received in 2007, and the \$473 state aid allocation received in 2006, that were never forwarded to PMRS.

Criteria: Municipalities which do not employ at least one full-time paid police officer, must return unused funds to the Commonwealth pursuant to the provisions of Act 120, at 72 P.S. 2263.3, which states, in part:

All monies distributed under the terms hereof, that are not used for the purposes set forth herein within two years after receipt thereof by the treasurers of several cities, boroughs, towns and townships, shall be returned to the General Fund for distribution...

Cause: Plan officials failed to establish adequate internal control procedures to ensure that unused funds were reimbursed to the Commonwealth.

Effect: The regional police department is improperly retaining pension plan funds that should be reimbursed to the Commonwealth for redistribution to eligible municipalities for reimbursement of eligible pension costs.

Recommendation: We recommend that plan officials identify any outstanding liabilities that need to be satisfied from the pension plan’s assets.

After accounting for any remaining liabilities and municipal contributions, the remaining police pension plan assets should be returned to the Commonwealth. A check, along with any applicable calculations used in determining the amount reimbursed, should be made payable to the Commonwealth of Pennsylvania and submitted to: Department of the Auditor General, Municipal Pensions & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

ELL-CO REGIONAL POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Plan officials agreed with the finding without exception. The ELL-CO Police Board passed Resolution No. 2 of 2008 which, effective May 12, 2008, dissolved and disbanded the ELL-CO Regional Police Department. Furthermore, during May of 2008, \$16,199 was deposited into the ELL-CO Regional Police Department's bank account, representing funds that were withdrawn from PMRS. These funds, along with the 2006 and 2007 state aid allocations and accumulated interest, totaled \$20,456 as of June 5, 2008.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

ELL-CO 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, 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	\$ 7,880	\$ 11,876	\$ 3,996	66.4%	\$ 27,393	14.6%
01-01-05	15,499	20,995	5,496	73.8%	28,766	19.1%
01-01-07	14,485	-	(14,485)	N/A	-	N/A

ELL-CO 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.

ELL-CO 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
2002	\$ 1,886	100.0%
2003	1,703	100.0%
2004	2,083	100.0%
2005	2,272	100.0%
2006	2,175	100.0%
2007	None	N/A

ELL-CO 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, 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	6.0%, net of expenses
Projected salary increases *	4.5%
* Includes inflation at	3.0%
Cost-of-living adjustments	3.0%, where applicable



ELL-CO REGIONAL POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

ELL-CO Regional Police Pension Plan  
Washington County  
P.O. Box 45  
Ellsworth, PA 15331

Ms. Carol A. Basara	President, Regional Police Board
Ms. Phyllis Webeck	Vice Chairperson, Regional Police Board
Mr. Benjamin F. Mader	Pennsylvania Municipal Retirement System

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).