

**GREAT BEND AREA JOINT POLICE PENSION PLAN**

**SUSQUEHANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, 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 Great Bend Area Joint 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 Great Bend Area Joint Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1, dated April 1, 1983, as amended, adopted pursuant to Act 600. As of January 1, 1996, the pension plan has had no active members. There is one retired member of the pension plan.





Great Bend Area Municipal Police Commission  
Susquehanna County  
Great Bend, PA 18821

We have conducted a compliance audit of the Great Bend Area Joint Police Pension Plan for the period January 1, 2008, 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 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.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Great Bend Area Joint 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 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 Great Bend Area Joint 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 – Failure To Pay The Minimum Municipal Obligation Of The Plan

As previously noted, one of the objectives of our audit of the Great Bend Area Joint Police Pension Plan was to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. During the current audit period, Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 57.8% as of January 1, 2009, which is the most recent date available. Based on this information, the Public Employee Retirement Commission issued a notification that the commission is currently in Level II moderate distress status. We encourage commission officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Great Bend Area Joint Police and, where appropriate, their responses have been included in the report.

September 28, 2011

JACK WAGNER  
Auditor General

GREAT BEND AREA JOINT POLICE PENSION PLAN  
STATUS OF PRIOR AUDIT RECOMMENDATION

Status Of Prior Audit Recommendation

· Improper Pension Benefit

As disclosed in the prior audit reports, dating back to the period January 1, 1997, to December 31, 1999, plan officials improperly granted and paid a full retirement benefit commencing on January 1, 1999, to a member who had only 18.5 years of full-time service. Furthermore, on November 8, 2002, pursuant to a settlement agreement between this retiree and the municipal police commission, the retiree was granted a lump-sum payment in the amount of \$40,671, representing retirement benefits for the period January 1, 1996, through December 31, 1998. This benefit was granted because the police commission improperly credited the member for 8 years of non-intervening military service time although such credit was not specifically authorized by the plan's governing document and entered into a general release agreement dated October 28, 2002, to provide the unauthorized benefits retroactive to January 1, 1996. The pension plan has paid, and continues to pay, pension benefits to the member who was not eligible to receive such benefits pursuant to the provisions in the plan's governing document in effect at the time of his termination of service. The member was entitled to a deferred vested benefit commencing on January 1, 2002. Therefore, the retiree has received unauthorized benefits amounting to \$81,342 (representing payments for the period January 1, 1996 through December 31, 2001) and excess monthly pension benefits of approximately \$413 per month thereafter, which totaled an additional \$48,734 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 commission no longer receives state aid for the pension plan and there are no longer any active employees, it did not receive allocations attributable to the excess pension benefits provided. The Department will continue to monitor the effect of the excess benefits being paid to this retired police officer during future audits of the plan.

GREAT BEND AREA JOINT POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding – Failure To Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality did not pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2010, as required by Act 205. The municipality had an unpaid MMO of \$7,044 for the year 2010.

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. . . .

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

Effect: The failure to 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 pay the 2010 MMO by the December 31, 2010, deadline, the municipality must add the 2010 MMO to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO due to the police pension plan for the year 2010, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the commission for examination during our next audit of the plan.

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

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

GREAT BEND AREA JOINT 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	\$ 135,723	\$ 27,931	\$ (107,792)	485.9%	None	N/A
01-01-07	169,864	41,601	(128,263)	408.3%	None	N/A
01-01-09	65,725	113,673	47,948	57.8%	None	N/A

Note: The 01-01-09 actuarial valuation report included the effect of an actuarial assumption modification due to the elimination of the plan's Social Security Offset provision. The effect of this modification combined with the decline in the market value of assets contributed to a decline in the funded status of the plan.

GREAT BEND AREA JOINT 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.

GREAT BEND AREA JOINT 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	None	N/A
2006	None	N/A
2007	None	N/A
2008	None	N/A
2009	None	N/A
2010	\$ 7,044	0.0%

GREAT BEND AREA JOINT 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	20 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.0%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



GREAT BEND AREA JOINT POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Great Bend Borough  
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Great Bend, PA 18821

Mr. Richard Franks            Council President

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