

**GREAT BEND AREA JOINT POLICE PENSION PLAN**

**SUSQUEHANNA 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 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.





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, 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 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 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.

Commission officials are responsible for establishing and maintaining an internal control structure 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. To assist us in planning and performing our audit, we obtained an understanding of the commission's internal control structure as it relates to the commission'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 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 – Noncompliance With Prior Audit Recommendation – Improper  
Pension Benefit

We also noted a matter that has been included in the following observation further discussed later in this report:

Observation – Failure To Prepare Financial  
Statements

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 Great Bend Area Municipal Police Commission and, where appropriate, their responses have been included in the report.

October 8, 2008

JACK WAGNER  
Auditor General

## GREAT BEND AREA JOINT POLICE PENSION PLAN STATUS OF PRIOR FINDINGS

### Status Of Prior Audit Recommendation

- Failure To Prepare Financial Statements

The status of the prior audit recommendation is addressed in the Observation discussed later in this report.

### Noncompliance With Prior Audit Recommendation

The Great Bend Area Municipal Police Commission has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Improper Pension Benefit

GREAT BEND AREA JOINT POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Improper Pension Benefit

Condition: As noted in our prior audit report, 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 4, 2002, pursuant to a settlement agreement between this retiree and the former 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.

Criteria: Ordinance No. 1, dated April 1, 1983, at Section VIII, provides for a normal retirement benefit as follows:

The following persons shall be entitled to receive pension retirement benefits as herein provided: (a) Each police officer employed by the municipalities on a full-time basis who shall have 25 years of continuous service and who shall have attained 55 years of age and who shall have received honorable discharge.

However, Section 3:02 of a resolution dated September 5, 1990, provides for an early retirement benefit as follows:

The early retirement date of a member shall be the first day of the calendar month coincident with or next following attainment of age fifty and completion of twenty years of service with the employer.

Section 6:02 of the resolution further states:

If the member meets the eligibility requirements stated in Section 3:02 for Early Retirement, the accrued benefit would be actuarially reduced due to early commencement of the retirement benefit.

Finally, Section 7:02 of the resolution, provides for the following vested benefit:

Each member shall be 100 percent vested in the employer-provided benefit under the plan after completing 12 years of service.

## GREAT BEND AREA JOINT POLICE PENSION PLAN FINDING AND RECOMMENDATION

### Finding – (Continued)

Cause: As previously disclosed, former officials of 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.

Effect: The pension plan has paid, and continues to pay, pension benefits to a member who was not eligible to receive such benefits pursuant to the provisions in the plan's governing document at the time of his termination of service. Based on records provided to the department, it appears 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 \$33,866 as of the date of this 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 did not receive state aid for the pension plan during the 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 again recommend that the retiree's monthly pension benefit be adjusted, prospectively, to the correct amount. Furthermore, any benefits paid from the plan in excess of those authorized by the governing document in effect at the time of the member's retirement will be deemed ineligible for funding with state pension aid. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the plan's future state aid allocations and submit this information to the department.

Management Response: Plan 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, 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	\$ 134,392	\$ 55,971	\$ (78,421)	240.1%	None	N/A
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

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
2002	None	N/A
2003	None	N/A
2004	None	N/A
2005	None	N/A
2006	None	N/A
2007	None	N/A



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, 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%
Projected salary increases	3.0%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

## GREAT BEND AREA JOINT POLICE PENSION PLAN OBSERVATION

### Observation – Failure To Prepare Financial Statements

Plan officials have not prepared financial statements or required notes to the financial statements for the police pension plan for the years ended December 31, 2006 and 2007.

Financial reporting assists in fulfilling a municipality's duty to be publicly accountable and should enable users to assess accountability. Guidance for the form and content of annual financial statements and notes to the financial statements can be found in Governmental Accounting Standards Board Statements No. 25 (GASB 25), as amended by No. 50 (GASB 50), and No. 3 (GASB 3), as amended by No. 40 (GASB 40).

Plan officials should consider establishing and implementing procedures to ensure the preparation of annual financial statements, which include note disclosures required by GASB 25, as amended by GASB 50, and GASB 3, as amended by GASB 40, in accordance with accounting principles generally accepted in the United States of America.

GREAT BEND AREA JOINT POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Commonwealth of Pennsylvania

Great Bend Borough  
P.O. Box 745  
Great Bend, PA 18821

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Ms. Amy Hine      Secretary

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).