

LANSDALE BOROUGH POLICE PENSION PLAN

MONTGOMERY COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2008, TO DECEMBER 31, 2009



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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 Lansdale 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 Lansdale Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1399, 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
Lansdale Borough
Montgomery County
Lansdale, PA 19446

We have conducted a compliance audit of the Lansdale Borough Police Pension Plan for the period January 1, 2008, to December 31, 2009. 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. Lansdale Borough contracted with an independent certified public accounting firm for annual audits of its basic 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 Lansdale 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 Lansdale 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 finding further discussed later in this report:

Finding – Member Contribution Provision Not In Compliance With Act 600

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 historical trend information contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. For example, the plan's funded ratio went from 93.1% as of January 1, 2007, to a ratio of 62.9% as of January 1, 2009, which is the most recent date available. We encourage borough 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 Lansdale Borough and, where appropriate, their responses have been included in the report.

January 21, 2011

JACK WAGNER
Auditor General

LANSDALE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Lansdale Borough has complied with the prior audit recommendation concerning the following:

- Failure To Appoint A Chief Administrative Officer

The borough has designated the borough manager as the plan's chief administrative officer to comply with Act 205 requirements.

LANSDALE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Member Contribution Provision Not In Compliance With Act 600

Condition: The pension plan’s governing document fails to contain a member contribution provision that is in compliance with Act 600. In addition, the borough does not annually reduce or eliminate member contributions in accordance with Act 600 provisions.

| <u>Provision</u> | <u>Governing Document</u> | <u>Act 600 (as amended)</u> |
|----------------------|--|---|
| Member contributions | <p>Each participant shall contribute monthly into the pension fund established hereunder an amount equal to 2.5% of monthly compensation for the calendar year 2007...Any balance of needed annual contributions shall become the obligation of the Borough and shall be paid to the pension funds by annual appropriations. Increases in participant contributions shall be determined as follows:</p> <p>(1) The participants’ contribution shall remain at the rate that such contribution was established at the beginning of the prior year, or be increased on a year-to-year basis as of January 1 of each succeeding year.</p> <p>(2) Participant contributions will be increased only if state aid from the prior year as calculated and applied based on the number of police plan participants is insufficient to meet the police plan minimum municipal obligation requirement. In such instance, the participant contribution may be increased... and in no event shall the participant contribution be increased by more than 2% from year-to-year or exceed a maximum contribution of 5% in any year.</p> | <p>Members shall pay into the fund, monthly, an amount equal to not less than 5% not more than 8% of monthly compensation. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.</p> |

LANSDALE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: The police pension plan’s governing document should contain a member contribution provision that is in compliance with Act 600. In addition, if the municipality decides to reduce or eliminate member contributions, it should be done in accordance with Act 600 provisions.

Cause: Municipal officials were unaware that the member contribution rate was not in compliance with Act 600 and that any subsequent determination to reduce or eliminate member contributions should be done in accordance with Act 600 provisions.

Effect: The plan’s member contributions provision has not been established in accordance with Act 600 provisions.

Furthermore, member contributions have not been annually reduced pursuant to Act 600 provisions.

Recommendation: We recommend that municipal officials establish a member contribution rate in accordance with Act 600. If the municipality determines that member contributions will be reduced or are not required, they should be reduced or eliminated in accordance with Act 600 provisions.

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

LANSDALE 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, 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 | \$ 10,344,606 | \$ 11,378,581 | \$ 1,033,975 | 90.9% | \$ 1,669,115 | 61.9% |
| 01-01-07 | 11,942,096 | 12,832,326 | 890,230 | 93.1% | 1,592,353 | 55.9% |
| 01-01-09 | 8,893,610 | 14,150,042 | 5,256,432 | 62.9% | 1,912,839 | 274.8% |

LANSDALE 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.

LANSDALE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

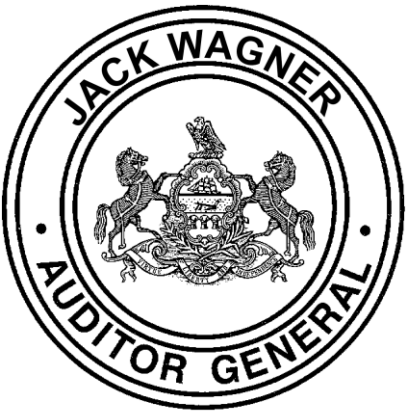
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2004 | \$ 186,126 | 100.0% |
| 2005 | 449,184 | 100.0% |
| 2006 | 348,883 | 100.0% |
| 2007 | 369,793 | 100.0% |
| 2008 | 348,283 | 100.0% |
| 2009 | 397,819 | 100.1% |

LANSDALE 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, 2009 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 16 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return * | 7.0% |
| Projected salary increases * | 5.0% |
| * Includes inflation at | Not disclosed |
| Cost-of-living adjustments | 4.0% |



LANSDALE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lansdale Borough Police Pension Plan
Montgomery County
1 Vine Street
Lansdale, PA 19446

| | |
|---------------------------------|-------------------|
| The Honorable G. Andrew Szekely | Mayor |
| Mr. Matthew West | Council President |
| Ms. Timothea Kirchner | Borough Manager |
| Mr. Brian Shapiro | Finance Director |

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.