



**LANSDOWNE BOROUGH POLICE
PENSION PLAN**

DELAWARE COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2011

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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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 Lansdowne 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Lansdowne Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1267, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers.





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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Lansdowne Borough
Delaware County
Lansdowne, PA 19050

We have conducted a compliance audit of the Lansdowne Borough Police Pension Plan for the period January 1, 2010, to December 31, 2011. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and selected information provided on these reports is accurate, complete and in accordance with plan provisions to ensure compliance for participation in the state aid program.
- Whether the special ad hoc postretirement adjustment granted to eligible pensioners is in accordance with applicable laws and regulations and whether the ad hoc reimbursement received by the municipality was treated in accordance with applicable laws and regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

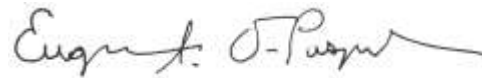
Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lansdowne Borough Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our tests indicated that, in all significant respects, the Lansdowne 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 – Pension Benefit Provision Not In Compliance With Act 600

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Lansdowne Borough and, where appropriate, their responses have been included in the report.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

January 31, 2013

EUGENE A. DEPASQUALE
Auditor General



LANSDOWNE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Lansdowne Borough has partially complied with the prior audit recommendation concerning the following:

- Inconsistent Pension Benefits

The borough adopted Ordinance No. 1267, which ensured consistency with the collective bargaining agreement and brought all of the plan's benefit provisions except for the service-related disability benefit into compliance with Act 600, as further discussed in the Finding and Recommendation section of this report.

LANSDOWNE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Pension Benefit Provision Not In Compliance With Act 600

Condition: As disclosed in the prior audit report, the pension plan’s governing document contained benefit provisions that: 1. conflicted with the collective bargaining agreement between the police officers and the borough and 2. were not in compliance with Act 600. During the current audit period, the borough adopted Ordinance No. 1267, which ensured consistency with the collective bargaining agreement and except for the service-related disability benefit, brought all of the plan’s benefit provisions into compliance with Act 600. The provision for service-related disability benefits contained in the revised ordinance does not comply with Act 600; however, it is consistent with a recent arbitration award, as illustrated below:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 600 (as amended)
Service-related disability	If hired prior to 1/1/11, 70% of average 36 month compensation provided that the disability benefit, social security disability benefits and workers compensation payments do not exceed 100% of the member’s compensation.	If hired prior to 1/1/11, 70% of average 36 month compensation provided that the disability benefit, social security disability benefits and workers compensation payments do not exceed 100% of the member’s compensation.	In the case of the payment of pensions for permanent injuries incurred in service, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township or regional police department and shall be calculated at a rate no less than fifty per centum of the member’s salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et. seq.) <u>shall have his disability benefits offset or reduced by the amount of such benefits.</u> All such pensions as shall be allowed to those who are retired by reason of disabilities <u>shall be in conformity with a uniform scale.</u> (Emphasis added)
	If hired after 1/1/11, 50% of average 36 month compensation provided that the disability benefit, social security disability benefits and workers compensation payments do not exceed 100% of the member’s compensation.	If hired after 1/1/11, 50% of average 36 month compensation provided that the disability benefit, social security disability benefits and workers compensation payments do not exceed 100% of the member’s compensation.	

LANSDOWNE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: The pension plan's governing document and the collective bargaining agreement should contain a consistent service-related disability benefit provision that is in compliance with Act 600, as amended.

Cause: The amended service-related disability benefit provision is pursuant to an arbitration award.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the plan's service-related disability benefit provision into compliance with Act 600, as amended, at their earliest opportunity to do so.

Management's Response: As you are aware, Lansdowne Borough has taken exception to the proposed finding that was discussed at the December 19th exit conference concerning the borough's police pension plan. The issue relates to your Department's interpretation of the Act 30 minimum service connected disability benefit.

Let the borough first give some background as it relates to the issue of disabilities within the borough's police pension plan. As of January 1, 2011, out of 17 retired participants, 9 went out on a disability benefit. Over the years, these disabilities have significantly increased the borough's municipal obligation to the police pension plan. The borough began to look at this issue and decided that this issue needed to change. In 2010, Lansdowne Borough elected to go to arbitration. A major topic in making this decision was the disability benefit. On January 31, 2011, the arbitration award was issued whereas officers hired on or after January 1, 2011 would receive a disability benefit equal to fifty percent (50%) of all reportable W-2 income for the thirty-six (36) months immediately preceding retirement or death, less severance payments made at time of retirement or death, e.g., unused sick leave and vacation. No severance payments shall be subject to payroll deduction for the police pension fund (Act 600). However, the total of the pension, social security disability benefits, and workers' compensation payments (or the annuity value of a lump sum workers' compensation settlement), may not exceed 100% of the W-2 income received in the prior twelve months. The workers' compensation benefits shall not be reduced (offset) by the pension received. The disability pension paid under this provision shall be offset to meet that requirement. This award was a 20% reduction of what officers hired prior to January 1, 2011 currently would be entitled to receive. This award was a significant help to the borough for the future financial stability of the plan as well as the borough's general fund.

LANSDOWNE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

At the December 19th exit conference, you stated that it is your Department's position that the arbitration award is in conflict with Section 5(e)(i) of Act 600 which states as follows:

In the case of the payment of pensions for permanent injuries incurred in service, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township, or regional police department and shall be calculated at a rate no less than fifty per centum of the member's salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et. seq.) shall have his disability benefits offset or reduced by the amount of such benefits.

You stated that the arbitration award is granting less than 50% of the officer's salary at the time the disability incurred and does not provide for a social security offset.

The borough totally disagrees with your Department's position. Let me explain our reasoning. Act 600 states that the disability benefit cannot be less than 50% of the officer's salary. The Borough has taken the position that the definition for salary is the officer's base wage. The arbitration award is based upon the average of the last 36 months earnings. These figures shall be based on W-2 earnings in which all forms of earnings are derived from the terms and conditions of the officer's employment, including base wage, longevity, overtime, shift differential, education, etc. The average 36 month W-2 earnings are significantly higher than a single year's base wage. With that being said, the arbitration award is therefore granting a disability benefit that is greater than 50% of the officer's salary at the time of disability.

The second issue that your Department raised was the lack of a social security offset. It is the borough's position that Act 600 provides this offset as a minimum requirement, and that the social security offset can be eliminated through negotiation. As your Department should be aware, Act 600 provides for a social security offset for a normal retirement benefit but the offset can be reduced or eliminated through negotiation. The arbitration award states that the total disability pension, social security disability benefits, and workers' compensation payments, may not exceed 100% of the W-2 income received by the officer in the prior twelve months. This language certainly addresses the offset and reflects a greater benefit than 50% of the salary at the time the disability was incurred.

LANSDOWNE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

The Borough respectfully requests that your Department reconsider its position and remove this finding from the audit of the police pension plan. The borough looks forward to your Department's response.

Auditor's Conclusion: The Department appreciates the Borough's continued efforts to address the plan's service-related disability benefit provision in light of the associated costs that have been incurred. However, the Department would like to take the opportunity to address the comments made in the borough's management response. The Lansdowne Borough Police Pension Plan has defined salary as W-2 wages less severance payments and has deducted member contributions from W-2 wages, consistency would require that pension benefits be calculated on W-2 wages less severance pay. Therefore, in the case of members hired after 1/1/11 who retire on service related disability, 50% of the average of the last 36 months salary would generally be less than the 50% of salary at the time of disability.

Regarding the provision for a Social Security offset, we agree that the Social Security offset provision for normal retirement benefit contained in Act 600 is an optional provision; however, given the language regarding the Social Security offset in Section 5(e) of Act 600, the offset for disability benefits is mandatory and not subject to negotiation.

Furthermore, Section 1(a)(3) of Act 600 mandates that service-related disability benefits be uniform in scale. Clearly the two-tiered system based on a police officer's date of hire does not provide for uniformity in scale. Therefore, the finding and recommendation remain as stated. The Department is aware that the borough's current service-related disability benefit provision is subject to collective bargaining and cannot be unilaterally amended. The borough's determination of service-related disability benefits in the future will be evaluated during subsequent audits of the plan.

LANSDOWNE 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. The historical information, beginning as of January 1, 2007, 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)]
01-01-07	\$ 6,276,822	\$ 8,161,744	\$ 1,884,922	76.9%	\$ 1,047,046	180.0%
01-01-09	6,199,770	8,916,189	2,716,419	69.5%	1,105,901	245.6%
01-01-11	6,757,898	9,300,931	2,543,033	72.7%	1,235,810	205.8%

Note: The market value of the plan's assets at 01-01-07 has been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. The market values of the plan's assets at 01-01-09 and 01-01-11 have been adjusted to reflect the smoothing of gains and/or losses at 130% of market value. These methods will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

LANSDOWNE 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.

LANSDOWNE 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
2006	\$ 296,933	100.0%
2007	271,970	100.0%
2008	359,217	100.0%
2009	337,910	100.9%
2010	341,034	169.0%
2011	378,497	152.3%

LANSDOWNE 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	24 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.

Actuarial assumptions:

Investment rate of return *	7.5%
Projected salary increases *	5.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	3.0%



LANSDOWNE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lansdowne Borough Police Pension Plan
Delaware County
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Lansdowne, PA 19050

The Honorable Jayne C. Young	Mayor
Ms. Sharon P. Coleman	Council President
Mr. Craig Totaro	Borough Manager
Mr. Joseph Bartley	Finance Director

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