

MORRIS-COOPER REGIONAL POLICE PENSION PLAN

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



MORRIS-COOPER REGIONAL POLICE PENSION PLAN

CLEARFIELD COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007

CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Findings	5
Finding and Recommendation:	
Finding – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan.....	6
Supplementary Information	8
Report Distribution List	13

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 Morris-Cooper 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 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1178, No. 177), as amended, 53 Pa.C.S. § 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 Morris-Cooper Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Morris Township Ordinance No. 1986-1 and Cooper Township Ordinance No. 4-86, as amended, adopted pursuant to Act 177.



Morris-Cooper Regional Police Commission
Clearfield County
Allport, PA 16821

We have conducted a compliance audit of the Morris-Cooper Regional 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 commission 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 Morris-Cooper 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 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 Morris-Cooper 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 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

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 the Morris-Cooper Regional Police Commission and, where appropriate, their responses have been included in the report.

March 5, 2009

JACK WAGNER
Auditor General

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Morris-Cooper Regional Police Commission has complied with the prior audit recommendations concerning the following:

· Deficiencies In Plan Administration And Record Keeping

During the current audit period, plan officials filed actuarial valuation reports in a timely manner and all necessary records were available for review and examination; and

· Plan Provisions Not In Accordance With Act 600

Ordinance No. 06-12-7 was enacted to provide for a service increment provision in accordance with Act 600 provisions. Furthermore, the plan's actuary certified that there was no effect on the pension plan's amortization contributions and state aid allocations for the years 2006 and 2007 due to the excess service increment provided to the retiree during the prior audit period.

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The regional police commission did not fully pay the minimum municipal obligation (MMO) that was due to the Morris-Cooper Regional Police Pension Plan for the year 2008, as required by Act 205. The 2008 MMO determined by the regional police commission was \$14,751; however, only \$8,645 was deposited, leaving a balance due of \$6,106.

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 2008 MMO was fully paid.

Effect: The failure to fully 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 commission's failure to fully pay the 2008 MMO by the December 31, 2008, deadline, the commission must add the 2008 MMO balance to the current year's MMO and include interest, as required by Act 205.

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the commission pay the MMO due for the year 2008, 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, in the future, plan officials pay the full MMO due to the plan.

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

MORRIS-COOPER 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	\$ 313,968	\$ 269,645	\$ (44,323)	116.4%	\$ 10,793	(410.7%)
01-01-05	286,432	261,584	(24,848)	109.5%	47,825	(52.0%)
01-01-07	261,739	302,413	40,674	86.6%	28,641	142.0%

MORRIS-COOPER 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.

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

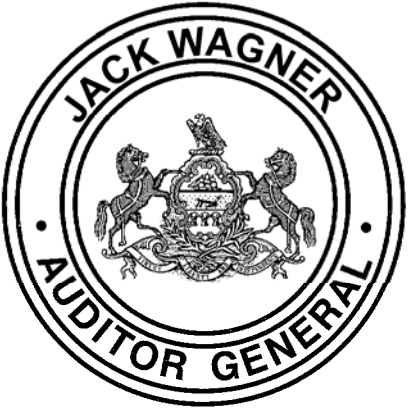
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	\$ 6,559	130.0%
2003	3,233	279.1%
2004	None	N/A
2005	None	N/A
2006	None	N/A
2007	2,810	100.0%

MORRIS-COOPER 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	Level dollar
Remaining amortization period	16 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	5.0%
Projected salary increases *	4.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



MORRIS-COOPER REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Morris-Cooper Regional Police Pension Plan
Clearfield County
P.O. Box 186
Allport, PA 16821

Mr. Wayne T. Josephson	Chairman, Regional Police Commission
Ms. Bonnie K. Williams	Secretary, Regional Police Commission
Ms. Gladys Straw	Secretary, Morris Township
Ms. Kate Roberts	Secretary, Cooper Township

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.