



**MOUNT CARMEL TOWNSHIP  
POLICE PENSION PLAN  
NORTHUMBERLAND COUNTY  
COMPLIANCE AUDIT REPORT  
FOR THE PERIOD  
JANUARY 1, 2009, TO DECEMBER 31, 2011**

**COMMONWEALTH OF PENNSYLVANIA**

**EUGENE A. DEPASQUALE - AUDITOR GENERAL**

**DEPARTMENT OF THE AUDITOR GENERAL**





**MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN**

**NORTHUMBERLAND COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2009, TO DECEMBER 31, 2011**



## CONTENTS

	<u>Page</u>
Background.....	1
Letter from the Auditor General .....	3
Status of Prior Findings .....	7
Findings and Recommendations:	
Finding No. 1 – Undocumented Pension Benefit Calculations.....	8
Finding No. 2 – Inconsistent Pension Benefits .....	9
Supplementary Information .....	11
Report Distribution List .....	15



## 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 Mount Carmel Township 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 Mount Carmel Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 08-2008, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.







**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen**

**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Supervisors  
Mount Carmel Township  
Northumberland County  
Atlas, PA 17851

We have conducted a compliance audit of the Mount Carmel Township Police Pension Plan for the period January 1, 2009, 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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. 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 benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Mount Carmel Township 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 township's internal controls as they relate to the township'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.

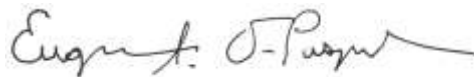
The results of our tests indicated that, in all significant respects, the Mount Carmel Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Undocumented Pension Benefit Calculations

Finding No. 2 – Inconsistent Pension Benefits

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 Mount Carmel Township and, where appropriate, their responses have been included in the report.



January 29, 2013

EUGENE A. DEPASQUALE  
Auditor General



MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Mount Carmel Township has complied with the prior audit recommendations concerning the following:

· Failure To Maintain An Adequate Record-Keeping System

Township officials established accounting procedures which meet the record-keeping requirements of this department.

· Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Township officials paid the outstanding minimum municipal obligations due to the police pension plan for the years 2007 and 2008 in accordance with Act 205 requirements.

· Pension Benefits In Excess Of Act 600

Township officials amended the early retirement benefit provision contained in the collective bargaining agreement covering the period January 1, 2011, to December 31, 2013, to be in compliance with Act 600.

· Improper Elimination Of Member Contributions

Township officials passed annual resolutions to eliminate member contributions in accordance with Act 600 provisions.

· Failure To Appoint A Chief Administrative Officer

Township officials formally appointed a chief administrative officer through the adoption of Resolution No. 2012-10.

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Undocumented Pension Benefit Calculations

Condition: The pension benefit calculations prepared for two plan members who retired on February 1, 2007, and January 31, 2009, respectively, were prepared using payroll amounts which do not agree with the township’s payroll records for each member’s average monthly compensation. In both calculations, the 2007 salary used in the benefit calculation was greater than the member’s W-2 compensation. Township officials were unable to provide documentation to support the higher salary amounts used.

Criteria: Section 6.1 of Ordinance No. 08-2008, states, in part:

The monthly normal retirement benefit shall equal fifty (50) percent of Average Monthly Compensation.

Furthermore, Section 1.2 of Ordinance No. 08-2008, states, in part:

Average Monthly Compensation shall mean the average of the Participant’s monthly Compensation over the sixty (60) month averaging period immediately preceding the Participant’s retirement. . . .

Effect: Based on an estimate prepared by this department, the member who retired on February 1, 2007, is receiving excess benefits of \$21 per month, which totaled approximately \$1,512 from retirement through the date of this audit report, and the member who retired on January 31, 2009, is receiving excess benefits of \$46 per month, which totaled approximately \$2,208 from retirement through the date of this report.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the payroll information that was provided to the plan consultant for preparation of the pension benefit calculations.

Recommendation: We recommend that municipal officials either obtain the necessary documentation to support the payroll figures used in the original benefit calculations or recalculate the pension benefits of the two retirees based on accurate payroll information and adjust the retirees’ pension benefits prospectively.

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

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inconsistent Pension Benefits

Condition: The pension plan’s governing document and the collective bargaining agreement between the township and its police officers effective January 1, 2011, to December 31, 2013, do not contain consistent benefit provisions, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Early retirement benefit	Not provided	Employer shall allow an early retirement benefit after an employee has completed (20) years of consecutive full-time service with no age limit requirement.
Normal retirement benefit	The monthly normal retirement benefit shall equal fifty (50) percent of Average Monthly Compensation.  Average Monthly Compensation shall mean the average of the Participant’s monthly Compensation over the sixty (60) month averaging period....	The monthly pension benefit other than length of service increments shall be computed at fifty (50%) of the monthly average salary of such Employee’s last thirty-six (36) months of employment.
Service increment	A maximum of five hundred dollars (\$500) per month.	Maximum benefit is one hundred dollars (\$100) per month.
Cost-of-living increase	Not provided	Cost of Living Adjustments shall be granted annually to pensioned employees....

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Service-related disability benefit	Such disabled Participant shall be entitled to a monthly disability benefit equal to 50% of the Participant’s monthly salary at the time the disability was incurred, reduced by the amount of any disability benefits payable under Social Security for the same injuries.	The pension benefit shall be Fifty percent (50%) of the employees’ last thirty-six (36) months, but reduced by such payments received by Worker’s Compensation and any disability insurance that exists or may be purchased by the Township in the future.
Nonintervening military service	Not provided	The Township shall provide full service credit for each year of military service or fraction thereof, not to exceed three (3) years, to any member of the police force who was not employed by the Township prior to such military service...

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600 to ensure the sound and consistent administration of retirement benefits.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan’s governing document and the collective bargaining agreement contained consistent benefit provisions.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions that are in compliance with Act 600 at their earliest opportunity to do so.

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



MOUNT CARMEL TOWNSHIP 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	\$ 625,928	\$ 608,031	\$ (17,897)	102.9%	\$ 141,364	(12.7%)
01-01-09	645,852	751,978	106,126	85.9%	175,885	60.3%
01-01-11	605,864	832,975	227,111	72.7%	266,091	85.4%

Note: 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 subject to a corridor between 80 to 120 percent of the market value of assets. This method 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.

MOUNT CARMEL TOWNSHIP 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.

MOUNT CARMEL TOWNSHIP 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	\$ 23,837	103.7%
2007	26,845	100.0%
2008	23,941	100.0%
2009	27,176	100.0%
2010	35,342	106.8%
2011	52,028	115.0%

MOUNT CARMEL TOWNSHIP 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	19 years
Asset valuation method	5-year smoothing - subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Includes inflation at	None assumed
Cost-of-living adjustments	Not disclosed

MOUNT CARMEL TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Mount Carmel Township Police Pension Plan  
Northumberland County  
300 Laurel Street  
Atlas, PA 17851

Mr. Charles Gasperetti      Chairman, Board of Township Supervisors

Mr. Brian Hollenbush      Chief of Police

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).