

OXFORD BOROUGH POLICE PENSION PLAN

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008



OXFORD BOROUGH POLICE PENSION PLAN

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2008

CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Findings	5
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Granting Of 2002 Special Ad Hoc Postretirement Adjustment.....	6
Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Inconsistent and Unauthorized Pension Benefits.....	7
Supplementary Information	9
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 Oxford 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 Oxford Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 812-2007, 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
Oxford Borough
Chester County
Oxford, PA 19363

We have conducted a compliance audit of the Oxford Borough Police Pension Plan for the period January 1, 2006, to December 31, 2008. 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 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Oxford 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 Oxford 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 findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Improper Granting Of 2002 Special Ad Hoc Postretirement
Adjustment

Finding No. 2 – Partial Compliance With Prior Audit Recommendation –
Inconsistent And Unauthorized Pension Benefits

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 Oxford Borough and, where appropriate, their responses have been included in the report.

September 3, 2009

JACK WAGNER
Auditor General

OXFORD BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Oxford Borough has complied with the prior audit recommendations concerning the following:

· Pension Benefit In Excess Of Plan Document

The borough reduced the retiree's monthly pension benefit by implementing a Social Security offset of \$655;

· Restated Plan Document Not Adopted By Ordinance Or Resolution

The borough passed Ordinance No. 812-2007, which adopted the restated group annuity contract;

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The borough reimbursed \$6,715 to the Commonwealth for the overpayment of state aid; and

· Failure To Appoint A Chief Administrative Officer

The borough adopted Resolution No. 1098-2007, which formally appointed a chief administrative officer for the pension plan.

Partial Compliance With Prior Audit Recommendation

· Inconsistent And Unauthorized Pension Benefits

The borough adopted Resolution No. 1108-2007, which contains the age and service requirements for normal retirement eligibility that are in compliance with Act 600; however, the collective bargaining agreement continues to contain an age and service requirement that is not authorized by Act 600. In addition, the member contribution rate contained in the plan's governing document remains unauthorized by Act 600 as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Audit Recommendation

Oxford Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

· Improper Granting Of 2002 Special Ad Hoc Postretirement Adjustment

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Improper Granting Of
2002 Special Ad Hoc Postretirement Adjustment

Condition: As disclosed in the prior audit report, the borough retroactively granted a 2002 special ad hoc postretirement adjustment to a retiree who was not entitled to the adjustment. The retiree vested his pension on August 31, 1992, and began receiving a pension in February of 1997.

Criteria: Section 401 of Act 147, as amended, states:

Entitlement to 2002 special ad hoc postretirement adjustment. A municipal retirement system shall pay a retired police officer or firefighter a special ad hoc postretirement adjustment under this chapter if all of the following apply:

- (1) The retiree has terminated active employment with the municipality as a police officer or firefighter.
- (2) The retiree is receiving a retirement benefit from a municipal retirement system on the basis of active employment with the municipality as a police officer or firefighter.
- (3) The retiree began receiving the retirement benefit before January 1, 1996.
(Emphasis added)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The retiree is receiving a special ad hoc postretirement adjustment of \$39 per month which he is not entitled to receive.

Recommendation: We again recommend that plan officials discontinue paying the 2002 special ad hoc postretirement adjustment improperly granted to the retiree.

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

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan’s governing document and the collective bargaining agreement between the police officers and the borough contained inconsistent and unauthorized benefit provisions. During the audit period, the borough adopted Resolution No. 1108-2007, which contains age and service requirements for normal retirement (age 50 and 25 years of service) which are in compliance with Act 600. However, the collective bargaining agreement for the period 2006-2008 contains a provision for normal retirement eligibility which is not authorized by Act 600, as noted below:

<u>Benefit Provision</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Age and service requirements for normal retirement	As of January, 1, 1995: Age 50 and 25 years of service and/or age 55 and 20 years of service. <i>(2006-2008 agreement, Article XIII, Section B)</i>	25 years of service and age 55 or, if an actuarial study of the cost shows that such reduction in age is feasible, age 50.

In addition, as disclosed in our prior audit report, the member contribution rate contained in the plan’s governing document is not authorized by Act 600, as noted below:

<u>Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Member contribution rate	<i>2.75% (Section 301A of the separately executed group annuity contract restated January 1, 2004)</i>	Not less than 5% nor more than 8% of monthly compensation. The governing body of the borough may, on an <u>annual</u> basis, by ordinance or resolution, reduce or eliminate member contributions.

Criteria: Plan documents which contain clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. Furthermore, the pension plan’s benefit structure should be in compliance with the provisions of Act 600.

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure full compliance with the prior audit recommendation.

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

Furthermore, a member contribution rate that is not in compliance with Act 600 could result in additional municipal contributions being necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that municipal officials ensure the plan's governing document and collective bargaining agreement are in compliance with Act 600 provisions at their earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits 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's Response: Municipal officials agreed with the finding without exception.

OXFORD 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, 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	\$ 738,635	\$ 922,984	\$ 184,349	80.0%	\$ 393,391	46.9%
01-01-05	645,394	987,750	342,356	65.3%	388,125	88.2%
01-01-07	774,289	1,105,267	330,978	70.1%	542,900	61.0%

Note: The market values of the plan's assets at 01-01-03, 01-01-05 and 01-01-07, have been adjusted to reflect the smoothing of gains and/or losses over a 3-year averaging period. 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.

OXFORD 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.

OXFORD 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
2003	None	N/A
2004	None	N/A
2005	\$ 85,934	100.0%
2006	96,706	100.0%
2007	123,390	100.0%
2008	105,050	100.1%

OXFORD 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Fair value, 3-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	4.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

OXFORD BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Oxford Borough Police Pension Plan
Chester County
P.O. Box 380
Oxford, PA 19363

The Honorable Geoffrey Henry	Mayor
Mr. C. Randy Teel	Council President
Ms. Artemis Anderson	Treasurer

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.