

**PALMER TOWNSHIP POLICE PENSION PLAN**  
**NORTHAMPTON COUNTY**  
**COMPLIANCE AUDIT REPORT**  
**FOR THE PERIOD**  
**JANUARY 1, 2006, TO DECEMBER 31, 2008**





**PALMER TOWNSHIP POLICE PENSION PLAN**

**NORTHAMPTON 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 Finding .....	5
Findings and Recommendations:	
Finding No. 1 – Inconsistent Pension Benefits .....	6
Finding No. 2 – Improper Cost-Of-Living Adjustment .....	7
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 Palmer 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 Palmer Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 35, 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.





Board of Township Supervisors  
Palmer Township  
Northampton County  
Palmer, PA 18043

We have conducted a compliance audit of the Palmer Township 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 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. Palmer Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Palmer Township 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 township's internal control structure as it relates to the township'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 Palmer 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 – Inconsistent Pension Benefits

Finding No. 2 – Improper Cost-Of-Living Adjustment

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

June 8, 2009

JACK WAGNER  
Auditor General

PALMER TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Palmer Township has complied with the prior audit recommendation concerning the following:

- Failure To Adopt Benefit Provisions Mandated By Act 30

Township officials adopted Ordinance No. 2009-385 to bring the police pension plan's benefit structure into compliance with Act 600, as amended by Act 30.

PALMER TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inconsistent Pension Benefits

Condition: The pension plan’s governing document, Ordinance No. 35, as amended, contains a benefit provision that conflicts with the collective bargaining agreement between the police officers and the township, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Inclusion of overtime in average monthly compensation	<p>The average of a participant’s compensation over the thirty-six-consecutive-month period ending on the date of the employment termination, including shift differential pay and longevity pay, but not including overtime.</p> <p>However with respect to any employee who is credited with an hour of service before January 1, 1992, overtime shall not be excluded from the participant’s compensation, but shall be included.</p>	For all officers, the Benefit Basis shall provide for the benefit payment of one-half (1/2) the officer’s average monthly salary including shift differential, longevity and overtime during the last 36 months of actual employment.

Criteria: Consistent benefit provisions among the various plan documents are a prerequisite for the consistent, sound administration of retirement benefits.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the plan’s governing document and the collective bargaining agreement contained fully 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 at their earliest opportunity to do so.

Management’s Response: Municipal officials need to investigate this matter further and will respond upon receipt of the audit report.

PALMER TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Cost-Of-Living Adjustment

Condition: The township improperly granted a retiree annual cost-of-living adjustments (COLAs) for the years 2007 and 2008 which exceeded 30 percent of the pensioner’s original monthly benefit.

Criteria: Section 5(g) (1) of Act 600 states, in part:

The cost of living increase shall not exceed the percentage increase in the Consumer Price Index from the year in which the police member last worked, shall not cause the total police pension benefits to exceed seventy-five per centum of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed thirty per centum. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

Cause: Municipal officials were unaware that the COLAs exceeded Act 600 limitations.

Effect: The pension plan is paying excess benefits to a retiree. Providing excess pension benefits could increase the plan’s costs and reduce the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses.

Recommendation: We recommend that the township determine future COLAs in accordance with Act 600 provisions. To the extent that the township has already obligated itself to pay benefits to a retiree 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, the unauthorized portion of 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 unauthorized benefits on the plan’s future state aid allocations and submit this information to the department.

Management’s Response: Municipal officials need to investigate this matter further and will respond upon receipt of the audit report.

PALMER 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, 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	\$ 5,627,295	\$ 5,366,652	\$ (260,643)	104.9%	\$ 1,326,994	(19.6%)
01-01-05	5,854,058	6,192,075	338,017	94.5%	1,552,073	21.8%
01-01-07	6,374,177	7,319,961	945,784	87.1%	1,980,895	47.7%

Note: The market value of the plan's assets at 01-01-03, 01-01-05 and 01-01-07 has been adjusted to reflect the smoothing of gains and/or losses over a 5-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.

PALMER 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.

PALMER TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

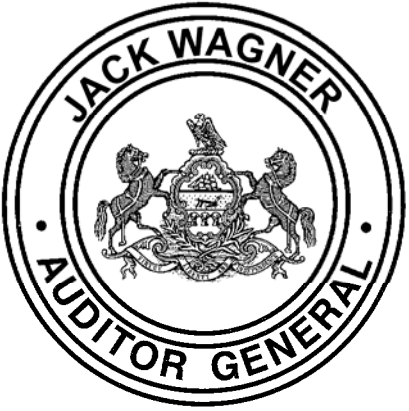
Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	\$ 103,809	187.7%
2004	113,071	133.0%
2005	159,754	114.8%
2006	263,634	111.3%
2007	295,916	100.0%
2008	407,553	100.0%



PALMER 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, 2007
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



PALMER TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Palmer Township Police Pension Plan  
Northampton County  
3 Weller Place  
Palmer, PA 18043

Mr. David E. Colver                      Chairman, Board of Township Supervisors

Mr. Robert G. Anckaitis              Township Manager

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).