



**PHOENIXVILLE BOROUGH POLICE
PENSION PLAN**

CHESTER COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010, TO DECEMBER 31, 2011

RELEASED MARCH 2013

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 Phoenixville 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Phoenixville Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 982, as amended, 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
Phoenixville Borough
Chester County
Phoenixville, PA 19460

We have conducted a compliance audit of the Phoenixville 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 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.

Phoenixville Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Phoenixville 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 Phoenixville 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 - Unauthorized Provision For An Actuarial Equivalent Benefit
- Finding No. 2 – Noncompliance With Prior Audit Recommendation - Inconsistent Pension Benefits
- Finding No. 3 – Noncompliance With Prior Audit Recommendation - Failure To Adopt Benefit Provisions Mandated By Act 30
- Finding No. 4 – Noncompliance With Prior Audit Recommendation - Improper Elimination Of Members' Contributions

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



December 28, 2012

EUGENE A. DEPASQUALE
Auditor General



PHOENIXVILLE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

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

- Unauthorized Provision For An Actuarial Equivalent Benefit
- Inconsistent Pension Benefits
- Failure To Adopt Benefit Provisions Mandated By Act 30
- Improper Elimination Of Members' Contributions

PHOENIXVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Noncompliance With Prior Audit Recommendation - Unauthorized Provision
For An Actuarial Equivalent Benefit

Condition: As disclosed in the prior audit report, the pension plan's governing document provides for actuarial equivalent benefits, which are not authorized by Act 600. Ordinance No. 1610 at Section 508, states:

In lieu of the aforeindicated basic benefit, the participant may elect any one of the following options:

- (a) Monthly benefit, for life, fixed at an actuarially reduced rate, guaranteed for one hundred and twenty (120) months;
- (b) Monthly benefit fixed at an actuarially reduced rate providing for guaranteed payment for the life of the participant, and the life of the spouse in an amount equal to 100 percent of 50 percent of the participant's pension; and
- (c) Monthly benefit fixed at an actuarially reduced rate providing for guaranteed payment for the life of the participant.

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

Monthly pension or retirement benefits other than length of service increments shall be computed at one half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

In addition, Section 1(a)(4) of Act 600 provides that the governing body shall prescribe a survivor's benefit "calculated at no less than fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death."

Therefore, a municipality may not grant actuarial equivalent benefits because they are not authorized by Act 600.

Cause: The borough was not able to reach agreement with its police department during the most recent contract negotiations and the resulting arbitration award for the period January 1, 2011, to December 31, 2013, did not address the provision of actuarial equivalent benefits.

Effect: The payment of an actuarial equivalent benefit could result in a beneficiary receiving a greater or lesser benefit than authorized by Act 600.

PHOENIXVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the actuarial equivalent benefit provisions be eliminated from the plan’s governing document. Retirees and beneficiaries currently receiving these benefits, if any, may continue to do so. In addition, current members of the plan may elect these benefits at retirement. However, police officers hired in the future should not be entitled to elect actuarial equivalent benefits.

Management’s Response: Municipal officials agreed with the finding without exception. Borough officials have prepared a revised plan document which they plan to adopt as soon as the current collective bargaining process has been completed.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan’s governing document, Ordinance No. 982, fails to contain benefit provisions that are included in the collective bargaining agreement between the police officers and the borough, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Service increments	Not provided	\$100 per year for each year in excess of 25 years.
Cost-of-living adjustments	Not provided	To be consistent with Act 600 and Act 147.
Early retirement benefit	Not provided	An early retirement benefit shall be available to a member of the police force with 20 or more years of continuous service who terminates employment prior to the completion of superannuation retirement age.

PHOENIXVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

In addition, the actuarial valuation report forms 201C, with valuation dates of January 1, 2009, and January 1, 2011, submitted to the Public Employee Retirement Commission, reported the benefit provisions included in the collective bargaining agreement.

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600 provisions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure 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.

Recommendation: We again 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. Borough officials have prepared a revised plan document which they plan to adopt as soon as the current collective bargaining process has been completed.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

PHOENIXVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30

Condition: As disclosed in the prior audit report, on April 17, 2002, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	Retirement earlier than normal retirement may be permitted with the consent of borough council in those cases where such early retirement is due to a service connected disability. The retirement benefit for such participant shall be reduced to reflect the actuarial equivalent of what would have been paid at the age of fifty.	The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document at no less than 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.
Survivor’s benefit	A widow of a member of the police force, or a member who retires on pension and then dies, or if she survives and subsequently dies or remarries, then the child or children under the age of 18 years of a member of the police force or a member who retires on pension who dies shall, during her lifetime, or so long as she does not remarry in the case of a widow, or until reaching the age of 18 years in the case of a child or children, be entitled to receive a pension calculated at the rate of 50 percent of the pension the member was receiving or would have been receiving had he been retired at the time of his death.	A lifetime survivor’s benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. (“Attending college” shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)

PHOENIXVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: The police pension plan’s benefit structure should be in compliance with Act 600, as amended by Act 30.

Cause: The borough was not able to reach agreement with its police department during the most recent contract negotiations and the resulting arbitration award for the period January 1, 2011, to December 31, 2013, did not address either the service-related disability or survivor benefit provisions.

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 police pension plan’s benefit structure into compliance with Act 600, as amended by Act 30, at their earliest opportunity to do so.

Management’s Response: Municipal officials agreed with the finding without exception. Borough officials have prepared a revised plan document which they plan to adopt as soon as the current collective bargaining process has been completed.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Improper Elimination Of Members’ Contributions

Condition: As disclosed in the prior audit report, the Phoenixville Borough Police Pension Plan is locally controlled by the provisions of Ordinance No. 982, as amended, adopted pursuant to Act 600. Section 6(a) of Act 600 provides that where police officers are not covered by Social Security, members shall pay into the fund, monthly, an amount equal to not less than 5 percent nor more than 8 percent of monthly compensation. However, pursuant to Section 6(c) of Act 600, municipalities have the option to annually reduce or eliminate members’ contributions through the adoption of an ordinance or resolution. During the current audit period, the governing body of the municipality again failed to annually eliminate members’ contributions in accordance with Act 600 provisions.

PHOENIXVILLE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Criteria: Section 6(c) of Act 600 states, in part:

The governing body of the borough, town, township or regional police department may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that members' contributions were eliminated in accordance with Act 600 provisions.

Effect: The municipality's intention not to have the police officers contribute to the plan was not formally established pursuant to Act 600 provisions.

Recommendation: We again recommend that the municipality either annually eliminate members' contributions in accordance with Act 600, or reinstate the collection of members' contributions in accordance with the rate approved by the municipality.

Management's Response: Municipal officials did adopt a resolution to eliminate member contributions for 2013 and stated that they failed to properly eliminate contributions during the current audit period due to police contract negotiations.

Auditor's Conclusion: Compliance will be evaluated during our next audit of the plan.

PHOENIXVILLE 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	\$ 7,498,108	\$ 7,306,673	\$ (191,435)	102.6%	\$ 1,536,997	(12.5%)
01-01-09	5,499,730	8,019,260	2,519,530	68.6%	1,742,293	144.6%
01-01-11	7,818,936	8,370,804	551,868	93.4%	2,183,436	25.3%

PHOENIXVILLE 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.

PHOENIXVILLE 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	\$ 231,598	100.0%
2007	252,834	100.0%
2008	289,239	100.0%
2009	341,745	106.3%
2010	211,886	285.9%
2011	514,221	118.0%

PHOENIXVILLE 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	12 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	4.0%



PHOENIXVILLE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Phoenixville Borough Police Pension Plan
Chester County
140 Church Street
Phoenixville, PA 19460

The Honorable Leo J. Scoda	Mayor
Mr. Richard Kirkner	Council President
Mr. E. Jean Krack	Borough Manager
Mr. Stephen M. Nease	Finance Director

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