

**PHOENIXVILLE BOROUGH POLICE PENSION PLAN**

**CHESTER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2009**





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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.

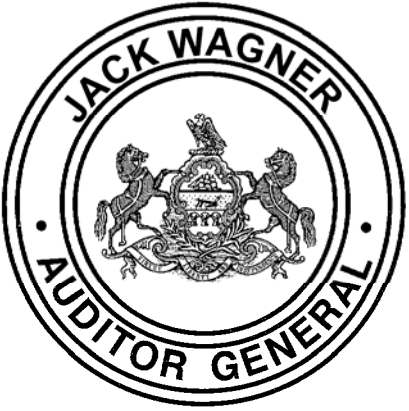
Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, 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 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 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.





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, 2008, to December 31, 2009. 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. 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 the extent necessary to satisfy 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 – Improper Elimination Of Members’ Contributions

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. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. For example, the plan’s funded ratio went from 102.6% as of January 1, 2007, to a ratio of 68.6% as of January 1, 2009, which is the most recent date available. We encourage borough officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Phoenixville Borough and, where appropriate, their responses have been included in the report.

February 24, 2011

JACK WAGNER  
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

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 failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

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 intend to incorporate changes to the pension documents into the arbitration proceedings for the next collective bargaining agreement.

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, 2007, and January 1, 2009, submitted to the Public Employee Retirement Commission, reported the benefit provisions included in the collective bargaining agreement.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: The borough 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 at their earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception. Borough officials intend to incorporate changes to the pension documents into the arbitration proceedings for the next collective bargaining agreement.

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 failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

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 intend to incorporate changes to the pension documents into the arbitration proceedings for the next collective bargaining agreement.

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

Finding No. 4 – Improper Elimination Of Members' Contributions

Condition: As previously noted in the Background section of this 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 audit period, the governing body of the municipality failed to annually eliminate members' contributions in accordance with Act 600 provisions.

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.



PHOENIXVILLE BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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

Effect: Although members did not contribute to the plan during the audit period, members' contributions were not annually eliminated in accordance with Act 600 provisions.

Recommendation: We 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 disagreed with the recommendation. The borough was directed by an arbitration award to eliminate the police members' contributions, but the borough still holds that the contributions are required under Act 600 and the collective bargaining agreement. Therefore, the borough has refrained from issuing a resolution to eliminate members' contributions.

Auditor's Conclusion: Since no members' contributions were actually made during the audit period and the borough has decided not to appeal the arbitrator's decision, members' contributions should be annually eliminated in accordance with Act 600 provisions. Therefore, based on the criteria previously cited, the finding and recommendation remain as stated.

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, except for distressed pension plans, for which annual reporting was required through January 1, 2003. The historical information, beginning as of January 1, 2005, 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)]
01-01-05	\$ 6,359,640	\$ 6,472,951	\$ 113,311	98.2%	\$ 1,500,874	7.5%
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%

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)

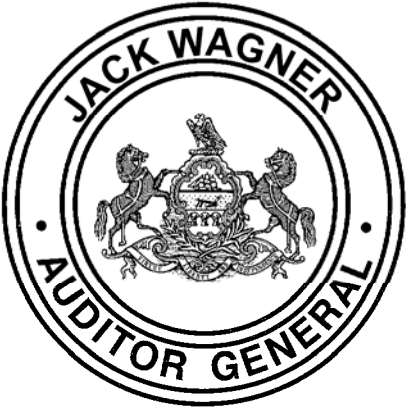
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	\$ 125,487	130.8%
2005	277,743	100.0%
2006	231,598	100.0%
2007	252,834	100.0%
2008	289,239	100.0%
2009	341,745	106.3%

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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	17 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 Thomas 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

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).