

REYNOLDSVILLE BOROUGH POLICE PENSION PLAN

JEFFERSON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007



REYNOLDSVILLE BOROUGH POLICE PENSION PLAN

JEFFERSON COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2006, TO DECEMBER 31, 2007

CONTENTS

	<u>Page</u>
Background	1
Letter from the Auditor General	3
Status of Prior Findings	5
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 581	6
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 Reynoldsville 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 120 - Foreign Casualty Insurance Premium Tax Allocation Law, Act of May 12, 1943 (P.L. 259, No. 120), as amended, 72 P.S. § 2263.1 et seq.
- Act 581 - The Borough Code, Act of February 1, 1966 (P.L. 1656, No. 581), Article XI(f), Police Pension Fund in Boroughs Having a Police Force of Less Than Three Members, as amended, 53 P.S. § 46131 et seq.

The Reynoldsville Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 504, as amended, adopted pursuant to Act 120 and Act 581. 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
Reynoldsville Borough
Jefferson County
Reynoldsville, PA 15851

We have conducted a compliance audit of the Reynoldsville Borough Police Pension Plan for the period January 1, 2006, to December 31, 2007. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 an internal control structure to provide reasonable assurance that the Reynoldsville Borough 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 borough's internal control structure as it relates to the borough'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 Reynoldsville 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 finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Pension
Benefits In Excess Of Act 581

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

January 21, 2009

JACK WAGNER
Auditor General

REYNOLDSVILLE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Reynoldsville Borough has complied with the prior audit recommendation concerning the following:

- Failure To Prepare Financial Statements

During the audit period, annual financial statements were prepared for the pension plan which included note disclosures.

Noncompliance With Prior Audit Recommendation

Reynoldsville Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Pension Benefits In Excess Of Act 581

REYNOLDSVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 581

Condition: As disclosed in the prior audit report, the pension plan’s governing document grants a survivor benefit that is not authorized by Act 581.

Article XII of Ordinance No. 504 states:

The surviving spouse of a police officer or the children under the age of eighteen (18) shall be eligible to receive a survivor’s benefit based upon fifty percent (50%) of the benefit the officer was receiving or would have been receiving had the officer been retired at the time of death. The surviving spouse shall be entitled to the survivor’s benefit regardless of future marital status.

Article XIII of Ordinance No. 504 states, in part:

Alternative retirement options shall be available at the time an election to retire is made. The retiring officer may elect an optional actuarially reduced benefit of the normal retirement benefit to provide survivor benefits...

Article XIV of Ordinance No. 504 states:

Should an officer die prior to retirement, the officer’s spouse shall be entitled to the vested earned accrued benefit liability at the time of the officer’s death. The officer’s spouse shall have the option to receive the benefit in one lump sum or elect a lifetime monthly income.

In addition the current collective bargaining agreement between the borough and its police officers, for the period January 1, 2006 through December 31, 2010, as amended, also provides for survivor benefits.

Criteria: Section 1131 of Act 581 states, in part:

All pension funds established under the provisions of this section shall be under the direction of the borough council, or such committee as it may designate, and shall be applied under such regulations as the council may by ordinance prescribe for the benefit of such members of the police force as shall receive honorable discharge therefrom by reason of age or disability and the families of such as may be injured or killed in the service (emphasis added). Any allowances made to those who are retired by reason of disability or age shall be in conformity with a uniform scale.

REYNOLDSVILLE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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

Effect: On April 1, 2004, the plan began paying pension benefits to a surviving spouse in excess of those authorized by Act 581. As of April 1, 2004, the surviving spouse is receiving excess benefits of \$527 per month, which totaled approximately \$30,578 as of the date of this report.

Furthermore, with the adoption of Ordinance No. 526 dated March 21, 2007, which established an In Service Retirement Option Plan (IROP); two members elected to retire in March 2012. Monthly pension benefits have been determined on their behalf based on 65% and 50% joint and survivor options.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. The provision of unauthorized pension benefits may have resulted in the receipt of excess state aid and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the borough comply with Act 581 upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the borough is not in compliance with Act 581 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 581, 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 must determine the impact, if any, of the unauthorized benefits on the plan's state aid allocations received since 2005 and submit this information to the department.

Management's Response: Municipal officials stated that they will change the plan document when the current collective bargaining agreement expires.

Auditor Conclusion: Compliance with the finding recommendation will be evaluated during our next audit of the plan.

REYNOLDSVILLE 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	\$ 620,804	\$ 622,450	\$ 1,646	99.7%	\$ 64,222	2.6%
01-01-05	635,415	646,065	10,650	98.4%	71,906	14.8%
01-01-07	693,152	708,820	15,668	97.8%	78,181	20.0%

REYNOLDSVILLE 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.

REYNOLDSVILLE BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

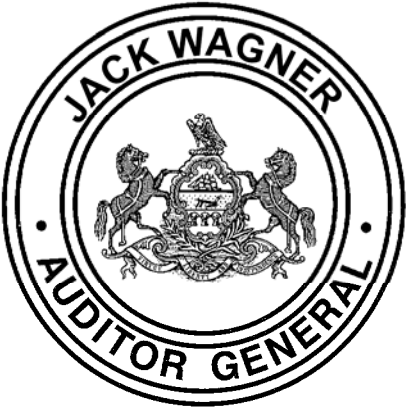
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	None	N/A
2003	None	N/A
2004	\$ 6,128	100.0%
2005	5,955	165.4%
2006	6,017	190.2%
2007	13,829	100.0%

REYNOLDSVILLE 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	10 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	7.25%
Projected salary increases *	4.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



REYNOLDSVILLE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Reynoldsville Borough Police Pension Plan
Jefferson County
P.O. Box 67
Reynoldsville, PA 15851

The Honorable Louie Caltagarone	Mayor
Mr. William Cebulskie	Council President
Ms. Eileen Drayer	Chief Administrative Officer

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.