

ROBESONIA BOROUGH POLICE PENSION PLAN

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2005, TO DECEMBER 31, 2007



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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 Robesonia 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 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 Robesonia Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1982-2, as amended, adopted pursuant to 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
Robesonia Borough
Berks County
Robesonia, PA 19551

We have conducted a compliance audit of the Robesonia Borough Police Pension Plan for the period January 1, 2005, 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 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.

Borough officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Robesonia 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 Robesonia 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 – Pension Benefits In Excess of Act 581

Finding No. 2 – Improper Pension Benefit Calculation

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

September 5, 2008

JACK WAGNER
Auditor General

ROBESONIA BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

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

- Pension Benefits In Excess Of Act 581

ROBESONIA BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 581

Condition: As disclosed in our prior audit report, the separately executed pension plan agreement with the plan’s custodian grants survivor benefits that are not authorized by Act 581. Part VII-1 (A) and (B) of the separately executed defined benefit pension plan joinder agreement states, in part:

A pre-retirement death benefit shall be provided to the surviving spouse or beneficiary, as applicable, of an eligible participant who dies prior to retirement in accordance with the following criteria:

A participant shall not be eligible for coverage by the pre-retirement death benefit unless or until the participant attains normal retirement age. The death benefit provided hereunder shall be a monthly benefit equal to 50 percent of the amount the participant would have been entitled to receive at the time of death; benefit is payable to the surviving spouse until death or remarriage.

A post-retirement death benefit shall be payable to Participants who have retired and begun receiving benefits in the following amount: A monthly benefit equal to 50% of the amount the participant was receiving at the time of death is payable to the surviving spouse, if any, until death or remarriage.

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. Any allowances made to those who are retired by reason of disability or age shall be in conformity with a uniform scale (emphasis added).

Cause: Borough officials were initially unaware that the survivor benefit contained in the plan’s governing document exceeded the parameters authorized by Act 581. Furthermore, adequate internal control procedures were not implemented to ensure compliance with the prior audit recommendation.

ROBESONIA BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: As of the date of this report, there were no survivors actually receiving excess benefits. However, providing unauthorized pension benefits increases the plan's pension costs and reduces the funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the borough received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, in the future, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and 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 at its earliest opportunity to do so. Should the borough fail to restrict survivor benefits to those authorized by Act 581 at its earliest opportunity to do so, the costs associated with providing the unauthorized survivor 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 agreed with the finding with exception. The borough's solicitor acknowledged that Act 581 does not specifically authorize the survivor benefit currently provided. However, he asserted that the intent of the legislature was not to prohibit the allowance of such benefits to the survivors of an eligible participant.

In subsequent correspondence, the solicitor wrote:

...[T]here is an arguable constitutional issue raised by this matter. It appears that the families of police officers are entitled to survivor's benefits of the kind identified in your audit under other pension legislation in the Commonwealth excepting that governing Boroughs and Townships with fewer than three full-time police officers. While there may be some facially valid economic reasons for this state of affairs, police officers in such departments may well have a valid claim to the effect that being singled out in this fashion violates the concept of equal protection of the laws.

Auditor's Conclusion: The response of management does not cite authority to overcome the presumption that acts of the General Assembly are constitutional. Therefore, based on the criteria previously cited, the finding and recommendation remain as stated.

ROBESONIA BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Pension Benefit Calculation

Condition: Pursuant to the collective bargaining agreement (CBA) dated January 1, 2001, the borough included retirement incentive bonuses in the vested pension calculation of one plan member, resulting in a monthly benefit amount in excess of the amount authorized by the plan document. The CBA granted eight (8) years of service credit for time employed by another municipality to the officer which gave the officer a premature vested pension benefit of 16 years after just 8 years of employment by Robesonia Borough.

Criteria: The plan document at Section VIII-1 states that Normal vesting service, is 100 percent at 12 years and zero percent prior to 12 years.

Cause: Municipal officials were unaware that granting service credit for time served with another municipality was not authorized by the plan's governing document or Act 581.

Effect: 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. Since the borough received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: To the extent that the borough has already obligated itself to pay vested benefits in excess of those authorized by the plan document, 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. In addition, any excess benefit payments made from the plan will be deemed ineligible for funding with state aid. Accordingly, the pension plan's actuary may be required to determine the impact, if any, of the excess benefit payments 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.

ROBESONIA 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	\$ 207,899	\$ 245,741	\$ 37,842	84.6%	\$ 80,861	46.8%
01-01-05	278,465	314,459	35,994	88.6%	86,770	41.5%
01-01-07	371,256	375,806	4,550	98.8%	85,549	5.3%

ROBESONIA 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.

ROBESONIA 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	\$ 4,416	126.0%
2003	4,938	163.3%
2004	2,812	486.1%
2005	22,853	100.0%
2006	22,045	100.0%
2007	22,685	100.0%

ROBESONIA 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	2 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

ROBESONIA BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Robesonia Borough Police Pension Plan
Berks County
P. O. Box 191
Robesonia, PA 19551

The Honorable Frank W. Schnee	Mayor
Mr. Harvey Marshall	Council President
Ms. Lisa K. Heilman	Secretary

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.