

**SHARON HILL BOROUGH POLICE PENSION PLAN**

**DELAWARE COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**





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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 Sharon Hill 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 Sharon Hill Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 275-R, 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  
Sharon Hill Borough  
Delaware County  
Sharon Hill, PA 19079

We have conducted a compliance audit of the Sharon Hill Borough Police Pension Plan for the period January 1, 2008, to December 31, 2010. 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 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. Sharon Hill Borough contracted with an independent certified public accounting firm for audits of the Sharon Hill Borough Police Pension Plan's financial statements for the years ending December 31, 2008 and 2009, and an audit of the borough's basic financial statements for the year ending December 31, 2010, 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 Sharon Hill 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 Sharon Hill 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 Not In Compliance With Act 600 Provisions

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

August 4, 2011

JACK WAGNER  
Auditor General

SHARON HILL BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Sharon Hill 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 Not In Compliance With Act 600 Provisions

SHARON HILL BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the collective bargaining agreement between the police officers and the borough contains a benefit provision that conflicts with the pension plan’s governing document, and is not in compliance with Act 600. The prior audit report further disclosed that a police officer who retired after 25 years and 3 days of service was granted a monthly service increment of \$100 in accordance with the provision contained in the collective bargaining agreement. During the current audit period, a police officer who retired on November 7, 2008, after 25 years and 7 months of service, was also granted a monthly service increment of \$100. The specific inconsistency is noted below:

| <u>Benefit Provision</u>    | <u>Governing Document</u>   | <u>Collective Bargaining Agreement</u>   | <u>Act 600 (as amended)</u>  |
|-----------------------------|---|--|--|
| Length of service increment | A monthly service increment benefit equal to \$100 if the member’s years of service total 26 or more. | An officer who works beyond his 25 <sup>th</sup> anniversary date of employment shall have his annual pension payment increased \$1,200. | Any borough, town, township or regional police department may establish and pay length of service increments for years of service beyond twenty-five years for <u>each completed year</u> of service in excess of twenty-five years, not to exceed one hundred dollars (\$100) per month for <u>each completed year</u> of service in excess of twenty-five years up to a maximum of five hundred dollars (\$500) per month after five completed years of service in excess of twenty-five years. (Emphasis added) |

SHARON HILL BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

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

Cause: Municipal officials were not able to amend the provision in the collective bargaining agreement for the period 2010 through 2013.

Effect: Two retired police officers were granted monthly service increment benefits pursuant to the provision contained in the collective bargaining agreement which conflict with the pension plan's governing document and are not in compliance with Act 600.

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: 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, at their earliest opportunity to do so.

To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees 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, 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 excess 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 without exception.

SHARON HILL 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<br>(a) | Actuarial Accrued Liability (AAL) - Entry Age<br>(b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability<br>(b) - (a) | Funded Ratio<br>(a)/(b) | Covered Payroll<br>(c) | Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll<br>[(b-a)/(c)] |
| 01-01-05                 | \$ 3,923,447                     | \$ 3,398,675   | \$ (524,772)  | 115.4%                  | \$ 480,737             | (109.2%)  |
| 01-01-07                 | 4,229,519                        | 3,716,522  | (512,997)   | 113.8%                  | 551,863                | (93.0%)   |
| 01-01-09                 | 3,096,016                        | 4,178,439  | 1,082,423   | 74.1%                   | 716,720                | 151.0%  |

Note: The market values of the plan's assets at 01-01-05, 01-01-07 and 01-01-09, have been adjusted to reflect the smoothing of gains and/or losses subject to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. 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.

SHARON HILL 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.

SHARON HILL BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

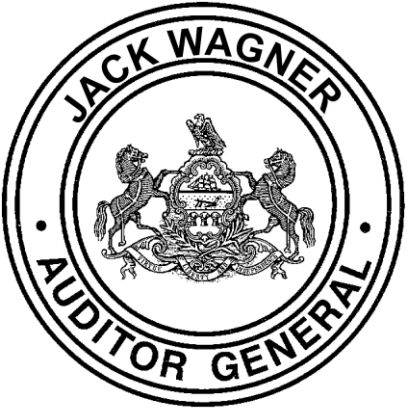
| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2005                   | \$ 52,984                    | 100.0%                 |
| 2006                   | 43,571                       | 100.0%                 |
| 2007                   | 56,431                       | 102.1%                 |
| 2008                   | 43,364                       | 100.0%                 |
| 2009                   | 41,530                       | 100.0%                 |
| 2010                   | 208,821                      | 100.0%                 |



SHARON HILL 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 | 20 years  |
| Asset valuation method        | The actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets. |
| Actuarial assumptions:        |   |
| Investment rate of return *   | 8.0%  |
| Projected salary increases *  | 5.0%  |
| * Includes inflation at       | Not disclosed   |
| Cost-of-living adjustments    | Annual increase in proportion to increase in Consumer Price Index subject to Act 600 limitations.                           |



SHARON HILL BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Sharon Hill Borough Police Pension Plan  
Delaware County  
250 Sharon Avenue  
Sharon Hill, PA 19079

|                                 |                        |
|---------------------------------|------------------------|
| The Honorable Robert J. O'Neill | Mayor                  |
| Mr. John Scanlan                | Council President      |
| Ms. Faith Thomas                | Acting Borough 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).