

SHENANGO TOWNSHIP POLICE PENSION PLAN

LAWRENCE 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 Shenango Township 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 Shenango Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2-2008. Prior to the adoption of Ordinance No. 2-2008, the pension plan was controlled by the provisions of Ordinance No. 1-2007, for the period March 5, 2007, through December 31, 2007, and the provisions of Ordinance No. 3-1993, as amended, prior to March 5, 2007. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.



Board of Township Supervisors
Shenango Township
Lawrence County
New Castle, PA 16101

We have conducted a compliance audit of the Shenango Township 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 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. Shenango Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the Shenango Township 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 township's internal control structure as it relates to the township'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 Shenango Township 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 - Partial Compliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 2 - Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 600
- Finding No. 3 - Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

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 Shenango Township and, where appropriate, their responses have been included in the report.

October 17, 2008

JACK WAGNER
Auditor General

SHENANGO TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Shenango Township has complied with the prior audit recommendation concerning the following:

- Unauthorized Provision For Actuarially Equivalent Benefits

Municipal officials eliminated the actuarially equivalent benefits with the adoption of Ordinance No. 1-2007.

Partial Compliance With Prior Audit Recommendation

- Pension Benefits Not In Compliance With Act 600 Provisions

Municipal officials adopted Ordinance No. 1-2007, which provided for vesting benefits in compliance with Act 600, as amended. In addition, municipal officials adopted Ordinance No. 2-2008, which provided for killed-in-service, survivor and disability benefits in compliance with Act 600, as amended by Act 30. However, Ordinance No. 2-2008 continues to provide benefits that are not in compliance with Act 600 as further discussed in the Findings and Recommendations Section of this report.

Noncompliance With Prior Audit Recommendation

Shenango Township 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 600

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document contained benefit provisions that are not in compliance with Act 600, as amended. Municipal officials did adopt Ordinance No. 1-2007, which provided for authorized vesting benefits and Ordinance No. 2-2008, which provided for killed-in-service, survivor and disability benefits in compliance with Act 600, as amended by Act 30. However, Ordinance No. 2-2008 continues to provide benefits that are not in compliance with Act 600, as amended. The specific unauthorized provisions are noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Refund of members’ contributions for non-vested employees	A participant who terminates employment for causes other than death or disability prior to becoming vested in a vested benefit shall be entitled to receive the refund of the total amount of the contributions paid into the pension fund with interest.	Requires the refund of member’s contributions, plus interest, to terminating members ineligible for pension benefits.
Forfeitures	Upon the forfeiture of any non-vested portion of a participant’s accrued benefit, the amount of such forfeiture shall be credited against the future contributions of the employer under the plan.	No provision for the credit of forfeitures against future employer contributions.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Survivor's benefit for disability retiree	No survivor's pension benefit shall be payable as a result of any eligible employee being eligible or receiving a disability retirement benefit hereunder.	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.)
Benefit calculation - final average monthly pay	A normal retirement benefit is calculated at 50% of the participant's Average Monthly Pay, which is defined as a participant's compensation paid by the township during the highest 60 consecutive months of service.	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.
Intervening military service	No provision	Any member of police force employed by a municipality for at least 6 months and enters military service shall have credited to employment records for pension benefits all of the time spent in such military service, if such member returns to his employment within six months after his separation from military service.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Cause: Plan officials failed to establish adequate internal control procedures to ensure full 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. In addition, because the municipality's state aid allocations were based on pension costs, the provision of unauthorized pension benefits may have resulted in the receipt of excess state aid and could also 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 township is not in compliance with Act 600 and 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, the excess 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 during and subsequent to the audit period and submit this information to the department.

Management's Response: Municipal officials agreed with the finding without exception.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefits In Excess Of Act 600

Condition: As disclosed in the prior audit report, due to a grievance arbitration award that was not appealed by the township, a pension benefit was granted to a surviving spouse that is not authorized by Act 600. An officer separated from employment, by virtue of his death, on December 5, 2004, at age 42 with 12 years of service. This situation would allow for a deferred survivor benefit to be determined and made payable to his surviving spouse on the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer. However, the arbitration ruling, dated November 22, 2005, awarded a monthly survivor benefit payable retroactive to January 1, 2005. The arbitration award, states, in part:

The pension grievance is resolved as set forth above. The Township shall cause to be paid out of the police pension plan the monthly sum of \$767 to (the surviving spouse), retroactive to January 2005, the date that the first monthly payment is due. These monthly payments (to the surviving spouse) shall continue for her lifetime and shall not be discontinued, transferred or diminished in the event of her subsequent remarriage...

During the audit period, the township continued to pay the excess benefit to the surviving spouse. However, the plan's actuary failed to determine and submit the impact on the township's state aid allocations to the Department.

Criteria: Section 5(h) of Act 600 states:

The ordinance or resolution establishing the police pension fund may provide for a vested benefit provided that such would not impair the actuarial soundness of the pension fund. Under the provisions of such benefit, should a police officer, before completing superannuation retirement age and service requirements but after having completed twelve years of total service, for any reason cease to be employed as a full-time police officer by the municipality or regional police department in whose pension fund he has been a member, he shall be entitled to vest his retirement benefits by filing with the governing body within ninety days of the date he ceases to be a full-time police officer a written notice of his intention to vest. Upon reaching the date which would have been his superannuation retirement date if he had continued to be employed as a full-time police officer he shall be paid a partial superannuation retirement allowance determined by applying the percentage his years of service bears to the years of service which he would have rendered had he continued to work until his superannuation retirement date to the gross pension, using however the monthly average salary during the appropriate period prior to his termination of employment. Such pension or retirement benefits for any month shall be the sum of clauses (1), (2) and (3) of subsection (c) of such benefits from the police pension fund established pursuant to this act to the extent necessary to bring the total benefits in any month up to his partial superannuation retirement allowance outlined above.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Section 1(a)(4) of Act 600 states, in part:

The surviving spouse of a member of the police force or a member who retires on pension who dies... shall during her lifetime... be entitled to receive a pension 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.

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

Effect: The plan is obligated to pay survivor pension benefits in excess of those authorized by 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. 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 to the extent that the township is contractually obligated to pay benefits to the surviving spouse in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. Accordingly, the plan's actuary must determine the impact, if any, of the excess benefits on the plan's state aid allocations received during and subsequent to the audit period and submit this information to the Department.

Management's Response: Municipal officials agreed with the finding without exception.

Finding No. 3 – Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not determine the financial requirements of the plan (FRP) or the minimum municipal obligation (MMO) of the police pension plan for the years 2006 and 2007, as required by Act 205. In addition, the chief administrative officer (CAO) of the plan failed to submit the FRP and MMO to the governing body of the municipality, as required by Act 205.

SHENANGO TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: With regard to the FRP, Section 302(b) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the financial requirements of the pension plan for the following plan year.

With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Furthermore, Section 304 of Act 205 states, in part:

The chief administrative officer of each pension plan shall submit the financial requirements of the pension plan and the minimum obligation of the municipality with respect to the pension plan, with appropriate documenting detail, to the governing body of the municipality on or before the last business day in September, annually.

Cause: Plan officials did not comply with the Act 205 requirements because a CAO was not formally appointed for the pension plan to assume the responsibility for compliance with these requirements until August 14, 2008.

Effect: Although the plan was properly funded for the years 2006 and 2007, the proper determination and submission of the plan's FRP and MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year.

Recommendation: We recommend that, in the future, the plan's CAO determine the FRP and MMO of the pension plan and submit these calculations to the governing body, as required by Act 205.

Furthermore, plan officials should establish and implement adequate internal control procedures to assist them in complying with Act 205 reporting and funding requirements.

Management's Response: Municipal officials agreed with the finding without exception.

SHENANGO TOWNSHIP 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	\$ 829,172	\$ 472,887	\$ (356,285)	175.3%	\$ 150,464	(236.8%)
01-01-05	839,331	562,230	(277,101)	149.3%	159,855	(173.3%)
01-01-07	888,577	580,356	(308,221)	153.1%	254,863	(120.9%)

SHENANGO TOWNSHIP 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.

SHENANGO TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

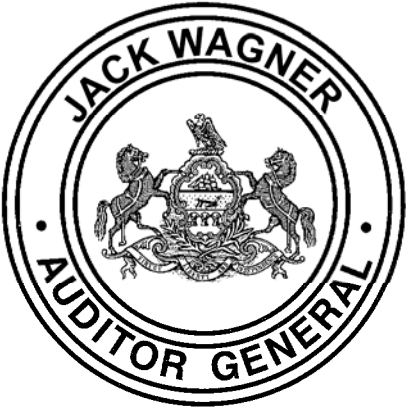
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2002	None	N/A
2003	None	N/A
2004	\$ 7,884	100.0%
2005	1,556	607.6%
2006	23,192	107.6%
2007	24,088	110.7%

SHENANGO TOWNSHIP 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	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	5.0%
Projected salary increases *	4.0%
* Includes inflation at	3.0%
Cost-of-living adjustments	None assumed



SHENANGO TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Shenango Township Police Pension Plan
Lawrence County
1000 Willowbrook Road
New Castle, PA 16101

Mr. Larry A Herman	Chairman, Board of Township Supervisors
Mr. Robert K. Peters	Township Supervisor
Mr. Brian Tanner	Chief Administrative Officer
Mr. Deno DeLorenzo	Consultant
Mr. Al Papa, Jr.	Consultant
Mr. Don J. Boetger	Actuary

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