

**SOUTH STRABANE TOWNSHIP POLICE PENSION PLAN**

**WASHINGTON COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2005, TO DECEMBER 31, 2006**





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# CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Finding and Recommendation:	
Finding – Inconsistent And Unauthorized Pension Benefit .....	5
Supplementary Information .....	7
Report Distribution List .....	11



## 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 South Strabane 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 South Strabane Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 9-96, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.





Board of Township Supervisors  
South Strabane Township  
Washington County  
Washington, PA 15301

We have conducted a compliance audit of the South Strabane Township Police Pension Plan for the period January 1, 2005, to December 31, 2006. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

The objective of the audit was 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 this objective.

The Department of the Auditor General (Department) is mandated by state statute to calculate state aid provided to municipal pension funds and to audit municipal pension funds having received such aid. State aid is calculated by an administrative unit that is not involved in the audit process. The Department's Comptroller Office then pre-audits the calculation and submits requests to the Commonwealth's Treasury Department for the disbursement of state aid to the municipality. The Department has implemented procedures to ensure that Department audit personnel are not directly involved in the calculation and disbursement processes. The Department's mandatory responsibilities are being disclosed in accordance with *Government Auditing Standards*.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the South Strabane 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 objective.

The results of our tests indicated that, in all significant respects, the South Strabane 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 finding further discussed later in this report:

Finding – Inconsistent And Unauthorized Pension Benefit

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

January 11, 2008

JACK WAGNER  
Auditor General

SOUTH STRABANE TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – Inconsistent And Unauthorized Pension Benefit

Condition: The pension plan’s current collective bargaining agreement contains a service-related disability benefit provision that conflicts with the pension plan’s governing document, Resolution No. 9-96, as amended, and is not authorized by Act 600, as noted below:

<u>Benefit Provision</u>	<u>Collective Bargaining Agreement</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	A bargaining unit member who suffers a service-related total and permanent disability shall be entitled to fifty (50%) percent of his average monthly salary at the time he incurred his disability. This benefit will not be reduced by any other benefit the participant receives, provided, however, that under no circumstances shall an employee receive more than 100% of his/her final average salary through a combination of other benefits and his/her disability pension. <i>Article 21, Section 21.4</i>	A Participant who retires due to a Total and Permanent Disability, pursuant to section 5.01 shall be eligible for a disability retirement benefit equal to fifty (50%) of the Member’s Salary at the time the Disability was Incurred determined as of the Disability Date, provided that any member who received benefits for the same injuries under social security disability shall have the Participant’s disability benefits offset or reduced by the amount of such benefits. <i>Resolution No. 16-04, Section 5.02</i>	In the case of the payment of pensions for permanent injuries incurred in service, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township or regional police department and shall be calculated at a rate no less than fifty per centum of the member’s salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act (49 Stat. 620, 42 U.S.C. 301 et. Seq.) shall have his disability benefits offset or reduced by the amount of such benefits. <i>Section 5(e)(1)</i>

SOUTH STRABANE TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: The benefit provisions contained in the collective bargaining agreement should be in compliance with Act 600, and consistent with the plan’s governing document.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the provisions of the current collective bargaining agreement were in compliance with Act 600 and the plan’s governing document.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the township comply with provisions Act 600 and the pension plan’s governing document upon the renewal, extension, or renegotiation of the collective bargaining agreement.

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

SOUTH STRABANE 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, 2001, 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)]
01-01-01	\$ 1,895,920	\$ 1,667,804	\$ (228,116)	113.7%	\$ 418,435	(54.5%)
01-01-03	2,090,593	2,143,092	52,499	97.6%	514,020	10.2%
01-01-05	2,334,600	2,292,168	(42,432)	101.9%	539,331	(7.9%)

Note: The market values of the plan's assets at 01-01-03 and 01-01-05 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period. 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.

SOUTH STRABANE 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.

SOUTH STRABANE 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
2001	\$ 27,068	100.0%
2002	40,864	130.0%
2003	77,664	100.0%
2004	97,266	100.0%
2005	109,365	100.0%
2006	97,130	100.0%

SOUTH STRABANE 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, 2005
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Fair value, 4-year smoothing
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases *	5.5%
* Includes inflation at	3.0%



SOUTH STRABANE TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

South Strabane Township Police Pension Plan  
Washington County  
550 Washington Road  
Washington, PA 15301

Mr. Robert Koman            Chairman, Board of Township Supervisors

Mr. John J. Stickle        Township 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).