

**TOWN OF BLOOMSBURG POLICE PENSION PLAN**

**COLUMBIA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2008**





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## CONTENTS

	<u>Page</u>
Background .....	1
Letter from the Auditor General .....	3
Status of Prior Findings .....	5
Findings and Recommendations:	
Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Pension Benefit Not In Compliance With Act 600 Provisions .....	6
Finding No. 2 – Incorrect Pension Benefit Calculation .....	7
Supplementary Information .....	9
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 Town of Bloomsburg 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Town of Bloomsburg Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of the Town's Codified Ordinances at Chapter 1, Part 6A, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the town and its police officers.





The Honorable Mayor and Town Council  
Town of Bloomsburg  
Columbia County  
Bloomsburg, PA 17815

We have conducted a compliance audit of the Town of Bloomsburg Police Pension Plan for the period January 1, 2007, to December 31, 2008. 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. The Town of Bloomsburg contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the town's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Town officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Town of Bloomsburg 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 town's internal controls as they relate to the town'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 Town of Bloomsburg 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 Benefit Not In Compliance With Act 600 Provisions

Finding No. 2 – Incorrect 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 the Town of Bloomsburg and, where appropriate, their responses have been included in the report.

September 1, 2009

JACK WAGNER  
Auditor General

TOWN OF BLOOMSBURG POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The Town of Bloomsburg has complied with the prior audit recommendation concerning the following:

- Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Municipal officials deposited \$1,722 into the police pension plan for the outstanding 2005 minimum municipal obligation due to the plan.

Partial Compliance With Prior Audit Recommendation

- Pension Benefits Not In Compliance With Act 600 Provisions

Municipal officials adopted Ordinance No. 922, which amended the plan's service-related disability benefit, member contribution and normal retirement benefit provisions to be in compliance with Act 600, as amended. However, the member contribution provision for intervening military service credit is not in compliance with Act 600, as amended, as further discussed in the Findings and Recommendations section of this report.

TOWN OF BLOOMSBURG POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Pension Benefit 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 conflicted with the collective bargaining agreement between the police officers and the town and were not in compliance with Act 600, as amended.

During the current audit period, municipal officials adopted Ordinance No. 922, which amended the plan’s service-related disability benefit, member contribution and normal retirement benefit provisions to be in compliance with Act 600, as amended. However, the member contribution provision for intervening military service credit is not in compliance with Act 600, as amended, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Intervening military service credit member contribution requirement	The member must contribute to the plan for the period of his military service with such contributions being based on the contribution rate set forth in Section 1-609(2) and the member’s annual rate of compensation immediately prior to commencement of such military service.	Member contributions are not required for the crediting of intervening military service time.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the police pension plan’s benefit structure should be in compliance with Act 600, as amended.

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

Effect: Members would be making unnecessary contributions to the pension plan in order to buy back intervening military service time.

TOWN OF BLOOMSBURG POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take appropriate action to ensure the plan’s governing document is in compliance with Act 600, as amended, at their earliest opportunity to do so.

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

Finding No. 2 – Incorrect Pension Benefit Calculation

Condition: A member of the pension plan who retired on March 31, 2006, had his pension benefit incorrectly determined because municipal officials failed to accurately calculate the service increment due in accordance with the plan’s governing document and the collective bargaining agreement in effect at the time of the member’s retirement. The municipality granted the member a \$100 per month service increment instead of the service increment benefit of \$42 per month that was in accordance with the plan’s governing document in effect at the time of the member’s retirement.

It was noted that subsequent to the audit period, the municipality adopted Ordinance No. 922, which amended the plan’s service increment benefit provision to provide for a \$100 per month service increment for members with at least 26 years of service.

Criteria: Ordinance No. 799, at Section 368.9, states, in part:

Service Increment Benefit: A monthly benefit, in addition to a member’s accrued benefit, equal to the lesser of (a) \$20.84 multiplied by the number of full years by which a member’s years of service exceed the years of service required for normal retirement benefits . . . or (b) \$100.

Act 600 at Section 5(f) states:

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 each completed year of service in excess of twenty-five years, not to exceed one hundred dollars (\$100) per month for each completed year 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. Such length of service increments may be paid in addition to other monthly pension or retirement allowances.

TOWN OF BLOOMSBURG POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by the plan's governing document in effect at the time of the member's retirement.

Cause: Municipal officials failed to establish adequate internal control procedures to comply with a verbal observation given at the prior audit exit conference that the retiree's pension benefit was not accurately determined.

Recommendation: We recommend that municipal officials adjust the retiree's pension benefit prospectively in accordance with the provisions contained in the plan's governing document in effect at the time of the member's retirement.

Furthermore, we recommend the municipality ensure the updated service increment provision contained in the plan's governing document be consistent with the provision contained in the collective bargaining agreement at their earliest opportunity to do so.

Management's Response: The response to the latest State Audit Report tentative finding "Incorrect Pension Calculation", which states the Service Increment Benefit of the Police Pension Plan in the Collective Bargaining Agreement (CBA) is not consistent with what is in the Town's Ordinance and Police Pension plan document, is as follows:

- The Police Pension Fund plan document was restated and effective January 1, 2005 and signed in 2004.
- The longevity benefit in the plan document gives \$100 per month, in addition to a Member's accrued benefit at retirement, provided that Member works at least 26 full years of service. It should be noted, this is in compliance with Act 600, stated as such on the most recent Ordinance and is how the plan is being both administered and valued in its actuarial valuations for determining Minimum Municipal Obligations of the pension fund.
- The retired member, as of 4/1/06, is the only member who retired with the service increment after 1/1/05 and his service increment was based on the \$100 per month level.

Thus, it is my recommendation that the Town correct the CBA as soon as administratively possible, retroactive to 1/1/05, so that it is in agreement with the Town's Ordinance and Police Pension Fund plan document.

Auditor's Conclusion: The restated plan document provided by the municipality was not signed by municipal officials. In addition, there was no evidence that the resolution adopting the restated plan document was signed prior to 2008, even though it is supposed to be retroactive to January 1, 2005. In addition, the restated plan document was adopted by Resolution No. 11-10-08.01, which cannot properly amend an ordinance. Therefore, based on the criteria cited above, the finding remains as stated.

TOWN OF BLOOMSBURG 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	\$ 3,134,748	\$ 3,045,042	\$ (89,706)	102.9%	\$ 707,435	(12.7%)
01-01-05	3,405,837	3,306,295	(99,542)	103.0%	695,746	(14.3%)
01-01-07	3,633,209	3,756,426	123,217	96.7%	771,626	16.0%

TOWN OF BLOOMSBURG 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.



TOWN OF BLOOMSBURG POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2003	None	N/A
2004	\$ 85,703	100.0%
2005	100,478	100.0%
2006	92,160	100.0%
2007	89,702	100.0%
2008	111,739	100.0%

TOWN OF BLOOMSBURG 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	15 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

TOWN OF BLOOMSBURG POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

Town of Bloomsburg Police Pension Plan  
Columbia County  
301 East Second Street  
Bloomsburg, PA 17815

The Honorable Daniel D. Knorr, II      Mayor

Ms. Carol L. Mas                              Town Administrator

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).