

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2007, TO DECEMBER 31, 2009



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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 Upper Southampton 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 Upper Southampton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 241, 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
Upper Southampton Township
Bucks County
Southampton, PA 18966

We have conducted a compliance audit of the Upper Southampton Township Police Pension Plan for the period January 1, 2007, December 31, 2009. 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. Upper Southampton 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 effective internal controls to provide reasonable assurance that the Upper Southampton Township 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 township's internal controls as they relate to the township'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 Upper Southampton 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 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Plan’s Governing Document Contains An Unauthorized Nonservice-Related Disability Benefit Provision

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

May 4, 2010

JACK WAGNER
Auditor General

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

Upper Southampton Township has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefits Not In Compliance With Act 600 Provisions
- Plan's Governing Document Contains An Unauthorized Nonservice-Related Disability Benefit Provision

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance 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, as codified in Chapter 24, Article II, of the Upper Southampton Code, contains benefit provisions that are not in compliance with Act 600, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Nonvoluntary termination early retirement benefit	For all contributors hired prior to July 1, 2003, should a participant be discontinued from service not voluntarily after having completed 8 years of total service. . . he shall be paid as he may elect as follows: a. Accumulated deductions with interest, or b. A retirement annuity of the sum of: 1. A member’s annuity of equivalent actuarial value to his accumulated deductions; and 2. A municipal annuity of equivalent actuarial value to the present value of a municipal annuity, as computed under the plan’s Vesting provisions.	Not provided
Vested benefit	The participant 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 <u>with a maximum of 25 years</u> to the gross pension. (Emphasis added)	The police officer 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.

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, on April 17, 2002, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	The service-connected retirement allowance shall be equal 50% of the member’s final salary, reduced by the amount of any payments for which the member shall be eligible under the “Pennsylvania Workmen’s Compensation Act” or the “Pennsylvania Occupational Disease Act.”	The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document at no less than 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.
Pre-vesting death benefit	Not provided	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of eighteen years, or, if attending college, under or attaining the age of twenty-three years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member’s investment in the pension fund, unless the member has designated another beneficiary for this purpose.

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Benefit Provision	Governing Document	Act 600 (as amended)
Survivor's benefit	On the death of a retired member, or on the death of an active member who is eligible for retirement at the time of death, the surviving spouse (or the surviving minor children, in absence of a spouse or upon remarriage of the surviving spouse) will receive a pension equal to 1/2 of the pension which such retired member was receiving or which such active member was eligible to receive if he or she had been retired at the time of death.	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.

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 were unable to change the plan's benefit provisions through collective bargaining.

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, 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 township did not receive state aid for this pension plan 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.

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We again recommend that the township comply with Act 600 at its earliest opportunity to do so. To the extent that the township is not in compliance with Act 600 and or is contractually obligated to pay benefits to current retirees that are not authorized by Act 600, the 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 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 without exception.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Plan’s Governing Document Contains An Unauthorized Nonservice-Related Disability Benefit Provision

Condition: As disclosed in the prior audit report, the police pension plan’s governing document inappropriately contains a provision for the payment of a nonservice-related disability benefit. This provision is not authorized by Act 600. Section 24-7 F of the Upper Southampton Code states, in part:

For all contributors hired prior to July 1, 2003, the following disability retirement provisions will apply:

- (1) After a contributor has had 10 or more years of total service, he may. . . be retired by the Committee on a disability allowance if he is under superannuation retirement age, and on a superannuation retirement allowance if he has attained or passes such age, if the physician designated by the Committee. . . shall certify to the Committee that the contributor is unable to perform the functions and duties of a police officer and that said contributor ought to be retired. When the disability of a contributor is determined to be service connected, no minimum period of service shall be required for eligibility.
- (2) A disability annuity shall be sufficient to produce a retirement allowance of 30% of the contributors [sic] final salary. Where the disability of the member is determined to be service-connected, the retirement allowance shall equal 50% of his final salary. The disability annuity shall be reduced by the amount of any payments for which the member shall be eligible under the “Pennsylvania Workmens Compensation Act”, as amended, or the “Pennsylvania Occupational Disease Act,” as amended.

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

- (3) Any contributor entitled to retire for disability may, in lieu of such retirement, if he has eight or more years of total service, elect to retire nonvoluntarily under the provisions of this section.
- (4) Should disability annuitant die before the total disability retirement allowance received shall be at least equal to the amount of his accumulated deductions at the time of disability retirement, then the Committee shall pay to the named beneficiary, if living, or if the named beneficiary predeceased the annuitant, or no beneficiary was named, then to the annuitant's estate, an amount equal to the difference between such total retirement allowance received and the annuitant's accumulated deductions.

Criteria: Regarding disability benefits, Section 5(e)(1) of Act 600 states:

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. (Emphasis added)

Furthermore, the Supreme Court of Pennsylvania in *Chirico v. Board of Supervisors for Newtown Township*, 518 Pa. 572, 544A.2d 1313 (1988) held that Act 600 does not provide for the payment of pension benefits for non-service related injuries.

Cause: Until December 16, 1986, the police pension plan was governed by Act 15, the Pennsylvania Municipal Retirement Law, which allows for a nonservice-related disability benefit. The township has not yet been successful in eliminating this benefit through collective bargaining.

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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 township did not receive state aid for this pension plan 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 the township comply with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the township is not in compliance with Act 600 and or is contractually obligated to pay nonservice-related disability benefits to current retirees, the 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 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 without exception. Municipal officials indicated that the township has not been successful in negotiating the benefit changes with the police officer’s union.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

UPPER SOUTHAMPTON 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, 2005, 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)]
01-01-05	\$10,462,219	\$ 8,438,496	\$ (2,023,723)	124.0%	\$ 1,618,850	(125.0%)
01-01-07	11,973,876	9,603,238	(2,370,638)	124.7%	1,537,672	(154.2%)
01-01-09	10,303,640	10,424,313	120,673	98.8%	1,588,396	7.6%

Note: The market value of the plan's assets at 01-01-09 has been adjusted to reflect the smoothing of gains and/or losses over a 5-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.

UPPER SOUTHAMPTON 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.

UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

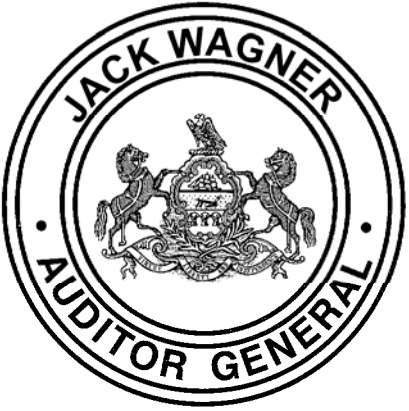
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2004	None	N/A
2005	None	N/A
2006	None	N/A
2007	None	N/A
2008	None	N/A
2009	None	N/A

UPPER SOUTHAMPTON 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, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return *	8.0%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	Adjustments shall be granted pursuant to Act 600



UPPER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Upper Southampton Township Police Pension Plan
Bucks County
939 Street Road
Southampton, PA 18966

Ms. Lola G. Biuckians Chairperson, Board of Township Supervisors

Mr. Joseph W. Golden Township Manager

Ms. Ann B. Alker Finance Director

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.