WARRINGTON TOWNSHIP POLICE PENSION PLAN

BUCKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2009, 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 Warrington 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 Warrington Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2007-O-04, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.

JACK WAGNER
AUDITOR GENERAL

Board of Township Supervisors
Warrington Township
Bucks County
Warrington, PA 19053

We have conducted a compliance audit of the Warrington Township Police Pension Plan for the period January 1, 2009, 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 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 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. Warrington Township contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ended December 31, 2010, which is 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 Warrington 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 Warrington 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 – Inconsistent And Unauthorized Pension Benefits
Finding No. 2	-	Improper Cost Of Living Adjustment
Finding No. 3	-	Pension Benefit Not Authorized By Act 600

As previously noted, one of the objectives of our audit of the Warrington Township Police Pension Plan was to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. During the current audit period, Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the bill provides for the implementation of a distress recovery program. Three levels of distress have been established:

Level	Indication	Funding Criteria
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 58.2% as of January 1, 2009, which is the most recent date available. Based on this information, the Public Employee Retirement Commission issued a notification that the township is currently in Level II moderate distress status. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Warrington Township and, where appropriate, their responses have been included in the report.

October 28, 2011

JACK WAGNER
Auditor General

WARRINGTON TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

Noncompliance With Prior Audit Recommendation

Warrington Township has not complied with the prior audit recommendation concerning the following:

- Inconsistent And Unauthorized Pension Benefits

  The township continues to pay excess benefits to a police officer who retired December 31, 2005. Through the date of this audit report, the retiree is receiving excess benefits of $1,435 per month, which have totaled approximately $103,284 from his date of retirement through the date of this audit report. These benefits are being paid pursuant to provisions contained in the plan's governing document and the collective bargaining agreement between the township and its police officers which provided this police officer a normal retirement benefit at age 55 with 20 years of service. However, Act 600 requires at least 25 years of service in order to be eligible for a normal retirement benefit. Since the township received its state aid allocations for the years 2006 through 2010 based on unit value, the township did not receive excess state aid attributable to the excess benefits provided. The department will continue to monitor the effect of the excess benefits being paid to this retired police officer during future audits of the plan.

  Additional inconsistent and unauthorized benefit provisions are disclosed in Finding No. 1 contained in this report.

WARRINGTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits

Condition: As disclosed in the prior audit report, the pension plan's governing document and the collective bargaining agreement (CBA) between the township and its police officers contain benefit provisions that are not consistent and are not authorized by Act 600, as noted below:

Benefit Provision	Ordinance No. 2007-O-04	Collective Bargaining Agreement	Act 600
Vested benefit determination	The member's normal retirement benefit multiplied by the ratio of (a) over (b), where: (a) Equals the years of service completed by the member as of his termination of employment, and (b) Equals the years of service the member would have completed if he had continued in employment until his Normal Retirement Date. However, a police officer hired at age 48 who terminates employment after completing 12 years of service at age 60 will be eligible for 12/20th of his Normal Retirement Benefit beginning at age 60.	Contains a provision that a police officer hired at age 25 who terminates employment with 12 years of service at age 37 will be eligible for 12/25th of a full pension beginning at age 50. Also, that a police officer hired at age 48 who terminates employment with 12 years of service at age 60 will be eligible for 12/20th of a full pension beginning at age 60.	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.

Benefit Provision	Ordinance No. 2007-O-04	Collective Bargaining Agreement	Act 600
Survivor's benefit - vested member	The spouse of any police officer who dies prior to Normal Retirement will receive an immediate monthly benefit equal to 50% of the accrued benefit the police officer would have been receiving had he been retired at the time of his death. Such benefit is payable until the spouse's death or if the spouse dies, the benefit is split among children under age 18 or if attending college, under or attaining the age of 23.	Upon the death of an active police employee, whether prior to or after retirement, the surviving spouse will receive a monthly pension benefit beginning on the first day of the month next following the date on which the police employee's death occurred…	Benefit payments commence on what would have been the officer's normal retirement date.
Service-related disability	Any police officer who, through a service related disease or injury becomes permanently disabled from performing the full duties of a police officer shall be paid 50% of the police officer's salary at the time the disability was incurred. This benefit is not to be offset by any Social Security Act benefits received by the police officer for the same injuries.	The active police employee who is eligible for disability retirement benefits shall be paid an amount which represents a 50% portion of his or her actual monthly earnings paid over a period of the last 36 months immediately preceding retirement or the onset of the disability, with no offset for Social Security disability payments.	A benefit in conformity with a uniform scale and fixed by the plan's governing document, but at least 50% of the member's salary at the time of disability, provided that if the member receives Social Security benefits for the same injury, his disability benefit is reduced by the amount of the Social Security benefit.

Finding No. 1 – (Continued)

In addition, for the contract period January 1, 2009, to December 31, 2011, an additional benefit provision was awarded through arbitration that is inconsistent with the plan's governing document; however, both provisions are within the constraints of Act 600, as follows:

Benefit Provision	Ordinance No. 2007-O-04	Collective Bargaining Agreement	Act 600
Service increment	A police employee who has 25 years of service will for each completed year of service worked in excess of 25 years rendered after December 30, 1986, receive a length of service increment of $25 per month for each year of service in excess of 25 years up to a maximum additional monthly benefit of $100, which sum of money will be paid in addition to the other monthly pension or retirement allowance.	A service increment of $100 per month for each completed year of service in excess of 25 years, up to a maximum service increment of $500 per month for members who have completed 30 or more years of service.	Service increments capped at $100 per month for each completed year of service in excess of 25 years up to a maximum of $500 per month after 5 completed years of service in excess of 25 years.

Criteria: The pension plan's governing document and the CBA should contain consistent benefit provisions that are in compliance with Act 600 provisions.

Cause: Municipal officials have been unable to amend the provisions in the current CBA which continues through December 31, 2011.

Effect: During the current audit period, pursuant to the plan's governing document and the CBA, the township granted an excess pension benefit to the surviving spouse of a police officer who died on November 6, 2009, with 19 years of credited service. The surviving spouse was granted an immediate benefit of $1,326 per month; however, the pension benefit should not have commenced until July of 2015, which would have been the deceased member's normal retirement date. Consequently, the surviving spouse has received excess benefits totaling approximately $33,150 through the date of this audit report.

Finding No. 1 – (Continued)

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 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 the township take appropriate action to ensure the plan's governing document and the collective bargaining agreement contain consistent benefit provisions that are in compliance 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 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 have 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 indicated that the township will look into bringing the plan's benefit structure into compliance with Act 600 after consultation with the plan's actuary and the expiration of the current collective bargaining agreement.

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

Finding No. 2 – Improper Cost Of Living Adjustment

Condition: The township granted an annual cost-of-living adjustment (COLA) to two surviving spouses for the year 2010.

Criteria: Section 5(g) (1) of Act 600 states, in part:

> The ordinance or resolution establishing the police pension fund may provide for a cost of living increase for members of the police force receiving retirement benefits. (Emphasis added)

Therefore, Act 600 does not provide for COLAs for surviving spouses.

Finding No. 2 – (Continued)

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that COLAs were awarded in accordance with Act 600 provisions.

Effect: The pension plan is paying excess benefits to two surviving spouses of deceased police officers.

Recommendation: We recommend that the township pay all COLAs in accordance with Act 600 provisions. To the extent that the township has already obligated itself to pay benefits 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 unauthorized portion of 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. 3 – Pension Benefit Not Authorized By Act 600

Condition: The police pension plan's governing document grants a benefit that is not authorized by Act 600. Section 705A of Ordinance No. 2007-O-04 states, in part:

> A police officer who shall have attained his Normal Retirement Date shall upon application, be entitled to a monthly pension computed by averaging the officer's final thirty-six (36) months of compensation. The monthly amount of such pension shall equal fifty percent (50%) of the thirty-six (36) months of compensation as averaged.

Section 701 of Ordinance No. 2007-O-04 further defines compensation as:

> A member's total monthly pay, including overtime pay, longevity increments, any pre-tax contributions made to the Plan pursuant to Code Sections 414 (h) or 125, <u>and any other direct monetary compensation, but excluding reimbursement expenses or payments made in lieu of expenses, non-salary compensation (fringe benefits), or any other non-salary payments or allowances</u> (including, but not limited to, uniform allowances). (Emphasis added)

Finding No. 3 – (Continued)

Municipal officials included lump-sum payments for accumulated unused compensatory time and vacation time that was not earned during the pension computation period in the determination of the final average salary used to calculate monthly pension benefits for two police officers who retired under the township's Deferred Retirement Option Plan (DROP) during the current audit period.

Criteria: Section 5(c) of Act 600 states, in part:

> 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.

Although Act 600 does not define "salary," the department has concluded, based on a line of court opinions, that the term does not encompass lump sum payments for leave that was not earned during the pension computation period.

In addition, the plan's governing document does not permit the inclusion of compensatory time or other non-salary payments in pension benefit determinations.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the pension benefits were determined in accordance with Act 600 provisions.

Effect: The plan is paying pension benefits to the DROP accounts of two retirees in excess of those authorized by Act 600 and the plan's governing document. The retirees are receiving total excess benefits of $753 per month, which totaled approximately $24,274 from the dates of their respective retirements through the date of this audit report.

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 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.

Finding No. 3 – (Continued)

Recommendation: We recommend that the pension benefits of any retirees whose benefits were not determined in accordance with the provisions of the plan's governing document be adjusted prospectively. To the extent that the township has already obligated itself to pay benefits in excess of those authorized by Act 600 and the plan's governing document, any excess benefit payments made from the plan will be deemed ineligible for funding with state aid. Accordingly, the pension plan's actuary may be required to determine the impact, if any, of the excess benefit payments 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.

WARRINGTON 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. 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	$ 5,052,234	$ 6,308,153	$ 1,255,919	80.1%	$ 1,884,871	66.6%
01-01-07	6,225,958	7,769,891	1,543,933	80.1%	2,006,857	76.9%
01-01-09	5,278,637	9,077,091	3,798,454	58.2%	2,334,586	162.7%

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.

WARRINGTON 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
2005	$ 323,063	100.5%
2006	360,218	100.5%
2007	375,057	100.0%
2008	399,469	100.0%
2009	416,796	100.0%
2010	501,212	100.0%

WARRINGTON 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 market value
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	4.0%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	3.0%

WARRINGTON TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Warrington Township Police Pension Plan
Bucks County
852 Easton Road
Warrington, PA 18976

Mr. John R. Paul	Chairman, Board of Township Supervisors
Mr. Timothy J. Tieperman	Township Manager
Mr. Barry P. Luber	Finance Director

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