

WEST PIKE RUN TOWNSHIP POLICE PENSION PLAN
WASHINGTON COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2006, TO DECEMBER 31, 2008



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ABBREVIATION

PSABMRT - Pennsylvania State Association of Boroughs Municipal Retirement Trust

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 West Pike Run 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The West Pike Run Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2002-2, which adopts a joinder agreement with PSABMRT, effective December 31, 2002.



Board of Township Supervisors
West Pike Run Township
Washington County
Daisytown, PA 15427

We have conducted a compliance audit of the West Pike Run Township Police Pension Plan for the period January 1, 2006, 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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.

Township officials are responsible for establishing and maintaining an internal control structure to provide reasonable assurance that the West Pike Run 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 West Pike Run 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 – Noncompliance With Prior Audit Recommendation – Unauthorized
Pension Plan Provisions

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 West Pike Run Township and, where appropriate, their responses have been included in the report.

March 31, 2009

JACK WAGNER
Auditor General

WEST PIKE RUN TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

West Pike Run Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Unauthorized Pension Plan Provisions

WEST PIKE RUN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Audit Recommendation – Unauthorized Pension Plan Provisions

Condition: As disclosed in our prior audit report, the pension plan’s governing document, Ordinance No. 2002-2, contains provisions that are not authorized by Act 69, as follows:

<u>Provision</u>	<u>Governing Document</u>	<u>Act 69</u>
Member contributions	Each Participant shall, as a condition of participation hereunder, make contributions to the plan at a rate of 5 percent of compensation. <i>(Joinder agreement Part III-1 (A) (3.02) (i))</i>	In those townships maintaining police forces of less than three full-time police officers, the board of supervisors may by ordinance or resolution establish a police pension fund or pension annuity into which each member of the police force may be required to pay a member contribution of an equal and proportionate charge which, except to the extent that section 607(c) of the act of December 18, 1984 (P.L. 1005, No. 205), known as the “Municipal Pension Plan Funding Standard and Recovery Act,” applies, shall not exceed annually three percent of the pay of the member.
Minimum service requirement	No minimum service requirement provision.	The ordinance or resolution establishing the police pension fund shall prescribe a minimum period of continuous service of not less than twenty years, after which the members of the force may be retired from active duty. Township police officers so retired may be subject to service as police reserves until unfit for service by reason of age or disability, when they may be finally discharged.

WEST PIKE RUN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 69</u>
Pension benefit determination period	The period over which compensation shall be averaged in order to determine average monthly compensation shall be 60 months. <i>(Joinder agreement Part I-4 (1.07) (B))</i>	The basis of the apportionment of the pension is determined by the rate of monthly pay of the member at the date of death, honorable discharge or retirement.
Survivor benefit	If a Participant elects not to receive his benefits in the Normal Form, he may elect to receive payment of his benefits in one of the following optional forms: a 50 percent contingent annuitant benefit; a 66-2/3 percent contingent annuitant benefit; a 75 percent contingent annuitant benefit; a 100 percent contingent benefit; a life annuity, with 60 months certain; a life annuity, with 120 months certain; and a life annuity, with 180 months certain. <i>(Joinder agreement Part V-1 (5.01))</i>	The fund shall be under the direction of the board of supervisors for the benefit of members of the police force who receive honorable discharge therefrom by reason of age or disability <u>and the families of members who may be injured or killed in the service.</u> Any allowances made to those who are retired by reason of disability or age shall be in conformity with a uniform scale. (Emphasis added)

In addition, the actuarial valuation report forms 203C, with valuation dates of January 1, 2005, and January 1, 2007, submitted to the Public Employee Retirement Commission, reported the provisions included in the governing document.

Criteria: The pension plan’s provisions should be in compliance with Act 69.

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

Effect: Providing unauthorized pension benefits could increase the plan’s pension costs and reduce 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 result 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.

WEST PIKE RUN TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that the township eliminate all benefits not authorized by Act 69 at its earliest opportunity to do so. To the extent that the township has already obligated itself to provide benefits to existing employees not authorized by Act 69, 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, 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.

WEST PIKE RUN 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	\$ 10,485	\$ 21,373	\$ 10,888	49.1%	\$ 21,880	49.8%
01-01-05	15,915	24,475	8,560	65.0%	22,080	38.8%
01-01-07	22,603	28,950	6,347	78.1%	23,040	27.5%

WEST PIKE RUN 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.

WEST PIKE RUN 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
2003	\$ 1,901	100.0%
2004	1,989	100.0%
2005	2,008	100.0%
2006	2,479	100.0%
2007	1,644	113.5%
2008	1,509	106.8%

WEST PIKE RUN 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	Level dollar, closed
Remaining amortization period	10 years (aggregate)
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%
* Includes inflation at	3.0%

WEST PIKE RUN TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

West Pike Run Township Police Pension Plan
Washington County
238 Pike Run Drive
Daisytown, PA 15427

Mr. George H. Shemansky Chairman, Board of Township Supervisors

Mr. Stephen J. Hajdu Secretary/Treasurer

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.