

**WHITE TOWNSHIP POLICE PENSION PLAN**

**BEAVER COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2010, 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 White 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 White Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2007, as amended, adopted pursuant to Act 600.





Board of Township Supervisors  
White Township  
Beaver County  
Beaver Falls, PA 15010

We have conducted a compliance audit of the White Township Police Pension Plan for the period January 1, 2010, 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the White 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 objective, 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 objective.

The results of our tests indicated that, in all significant respects, the White 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 – Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

As previously noted, the objective of our audit of the White Township Police Pension Plan was to determine compliance with applicable state laws, contracts, administrative procedures, and local ordinances and policies. 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:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
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 26.4% 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 Whiter Township Police Pension Plan is currently in Level III severe 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 White Township and, where appropriate, their responses have been included in the report.

April 20, 2011

JACK WAGNER  
Auditor General

WHITE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: The pension plan’s governing document, Resolution No. 2007, as amended, 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>
Definition of “attending college”	None	For purposes of this act, the phrase “attending college” shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of seven credit hours per semester. (Section 1(b))
Intervening military service credit	None	Any member of the police force shall be eligible to receive service credit for intervening or nonintervening military service as provided in subsections (a) and (b) provided that he is not entitled to receive, eligible to receive now or in the future or is receiving retirement benefits for such service under a retirement system administered and wholly or partially paid for by any other governmental agency with the exception of a member eligible to receive or receiving military retirement pay earned by a combination of active duty and nonactive duty with a reserve or national guard component of the armed forces which retirement pay is payable only upon the attainment of a specified age and period of service under 10 U.S.C. Ch. 67 (relating to retired pay for non-regular service). (Section 4(c))

WHITE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Refund of member contributions	Refund of Contributions in case of death: A refund of employee contributions will be made, with 5% interest. (Section VIII)	Refund of member’s contributions, plus investment income, 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 a member who dies before he has vested. (Section 1(a)(5))
Service-Related disability benefit	The participant shall receive a 50% disability benefit if they incur a total and permanent disability as a direct result of, and in the line of duty or, employment as a police officer. This benefit will be offset by any applicable Social Security benefit. (Section IX)	A service-related disability 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 disability benefits for the same injury his disability benefit is reduced by the amount of the Socials Security benefit. (Sections 1(a)(3) and 5(e)(1))
Vesting Benefit	Vesting shall be 100% after 12 years of service. (Section VI)	A police officer is fully vested after 12 years of full-time service. The benefit is not payable until the date that would have been the member’s superannuation retirement date if he had continued to be employed. Also, the benefit is determined by applying the percentage the member’s years of service bears to the years of service the member would have rendered by his superannuation retirement date to the gross pension (reduced by any applicable Social Security offset). (Section 5(h))

WHITE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 unaware that the governing document was not in compliance with Act 600.

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.

Recommendation: We recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan's benefit structure into 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 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: The municipality did not fully pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2009, as required by Act 205. The municipality had an unpaid 2009 MMO balance of \$908.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

WHITE TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Section 302(e) of Act 205 states, in part:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid. . . .

Cause: Plan officials failed to establish adequate internal control procedures to ensure the 2009 MMO was fully paid in accordance with Act 205 requirements.

Effect: The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2009 MMO by the December 31, 2009, deadline, the municipality must add the 2009 MMO balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality fully pay the 2009 MMO due to the plan with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure the MMO is fully paid in accordance with Act 205 requirements.

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

WHITE 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, 2007, 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)]
01-01-07	\$ -	\$ 80,079	\$ 80,079	0%	\$ 76,989	104.0%
01-01-09	40,011	151,312	111,301	26.4%	76,204	146.1%

Generally accepted accounting principles require the above data to be presented as of the plan's actuarial valuation dates for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

WHITE 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.



WHITE 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
2007	\$ 15,351	100.0%
2008	16,520	100.0%
2009	18,177	95.0%
2010	16,222	102.1%

Generally accepted accounting principles require the above data to be presented for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

WHITE 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	17 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	6.0%
Projected salary increases *	4.5%
* Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

WHITE TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

White Township Police Pension Plan  
Beaver County  
2401 Clayton Road  
Beaver Falls, PA 15010

Ms. Dee Hartman      Chairperson, Board of Township Supervisors

Ms. Gail Lambright      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](http://www.auditorgen.state.pa.us).