

BUTLER TOWNSHIP POLICE PENSION PLAN
LUZERNE COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2006, TO DECEMBER 31, 2008



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ABBREVIATION

PERC - Public Employee Retirement Commission

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 Butler 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 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 Butler Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of the Township's Code of Ordinances at Chapter 1, Part 2, 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
Butler Township
Luzerne County
Drums, PA 18222

We have conducted a compliance audit of the Butler 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 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. Butler Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2006 and 2007, 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 an internal control structure to provide reasonable assurance that the Butler 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 Butler 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 – Partial Compliance With Prior Audit Recommendation –
Incorrect Data Supplied To Actuary For Actuarial Valuation
Report Preparation Resulting In An Overpayment Of State
Aid

Finding No. 2 – Partial Compliance With Prior Audit Recommendation -
Failure To Adopt Benefit Provisions Mandated By Act 30 Of
2002

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

March 18, 2009

JACK WAGNER
Auditor General

BUTLER TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Butler Township has complied with the prior audit recommendation concerning the following:

- Failure To Prepare Financial Statements

During the audit period, annual financial statements were prepared for the pension plan.

Partial Compliance With Prior Audit Recommendations

- Incorrect Data Supplied To Actuary For Actuarial Valuation Report Preparation Resulting In An Overpayment Of State Aid

The township reimbursed \$63,275 to the Commonwealth for the overpayment of state aid; however, the reimbursement was made from the police pension plan which resulted in minimum municipal obligation deficiencies as further discussed in the Findings and Recommendations section of this report; and

- Failure To Adopt Benefit Provisions Mandated By Act 30 Of 2002

Township officials adopted Ordinance No. 071107 which brought the police pension plan's governing document into compliance with Act 600, as amended by Act 30 of 2002. However, the collective bargaining agreement between the police officers and the township still contains a benefit provision that is not in compliance with Act 600, as amended by Act 30 of 2002, as further discussed in the Findings and Recommendations section of this report.

BUTLER TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Incorrect Data
Supplied To Actuary For Actuarial Valuation Report Preparation Resulting In
An Overpayment Of State Aid

Condition: As disclosed in the prior audit report, actuarial valuation report form 201C, for the police pension plan, with valuation dates of January 1, 2003, and January 1, 2005, submitted to PERC, contained incorrect payroll information which resulted in the township receiving excess state aid allocations for the years 2004, 2005 and 2006, totaling \$54,418. The discrepancy was due to the improper payroll information included in the demographic data. The payroll amount was understated because it did not include total W-2 compensation. It was recommended the township reimburse the Commonwealth for the overpayments of state aid and verify all information submitted to and received from the plan's actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

During the current audit period, the township reimbursed \$63,275 to the Commonwealth for the overpayments of state aid; however, the reimbursement was made from the police pension plan which resulted in a funding deficiency. The prior audit finding recommended that if the reimbursement to the Commonwealth was made from police pension plan funds, any resulting minimum municipal obligation (MMO) deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan. Therefore, the township did not fully pay the MMOs that were due to the police pension plan for the years 2004 and 2005, as required by Act 205. Consequently, the township has a total unpaid MMO balance for the years 2004 and 2005 in the amount of \$40,635.

Furthermore, the incorrect data on the January 1, 2005, actuarial valuation report resulted in an overpayment of state aid in 2007 in the amount of \$20,146.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial and demographic condition of the pension plan of the municipality.

BUTLER TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Any amount of the minimum obligation of the municipality which remains unpaid ... shall be added to the minimum obligation of the municipality for the following year, with interest . . .

Cause: Municipal officials failed to establish adequate internal control procedures to fully comply with the prior audit recommendation.

Effect: Because the township's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data to the actuary has resulted in the township receiving excess state aid for the year 2007, in the amount of \$20,146.

Because the township contributed \$19,074 in excess of the 2007 MMO, that amount can be reimbursed from the pension plan and the remaining amount can be reimbursed from township funds.

In addition, the failure to fully pay the outstanding 2004 and 2005 MMO balances could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that the total excess state aid, in the amount of \$20,146, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

In addition, if the reimbursement to the Commonwealth from police pension plan funds is greater than \$19,074, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

We also recommend that the municipality pay the MMO due to the police pension plan for the years 2004 and 2005, 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.

BUTLER TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Furthermore, we recommend that, in the future, plan officials review and verify all information submitted to and received from the plan’s actuary so that future actuarial valuation reports properly reflect the status of the pension plan.

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

Finding No. 2 – Partial Compliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30 Of 2002

Condition: As disclosed in the prior audit report, on April 17, 2002, Act 600 was amended by Act 30 of 2002, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. On July 7, 2007, township officials adopted Ordinance No. 071107 which brought the police pension plan’s governing document into compliance with Act 600, as amended by Act 30 of 2002. However, the collective bargaining agreement between the police officers and the township continues to contain a benefit provision that is not authorized by Act 600, as follows:

<u>Benefit Provision</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Survivor benefit	The surviving spouse shall be entitled to 50% of the benefit to which the officer was entitled at the time of death. Also, each child under the age of 18 shall be entitled to an additional 5% of the benefits to which the officer was entitled 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 children under 18 years of age or if attending college, under or attaining the age 23, of at least 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: The survivor benefit provision contained in the collective bargaining agreement should be in compliance with the provisions of Act 600, as amended by Act 30 of 2002.

BUTLER TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We again recommend that the township comply with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement.

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

BUTLER TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 1205 Pittsburgh State Office Building, 300 Liberty Avenue, Pittsburgh, PA 15222.

BUTLER 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	\$ 382,520	\$ 466,890	\$ 84,370	81.9%	\$ 195,641	43.1%
01-01-05	542,621	626,918	84,297	86.6%	269,740	31.3%
01-01-07	755,416	936,756	181,340	80.6%	401,549	45.2%

BUTLER 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.

BUTLER 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	\$ 44,222	109.7%
2004	47,390	70.6%
2005	59,447	67.1%
2006	46,649	126.5%
2007	45,749	141.7%
2008	56,687	113.0%

BUTLER 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
Remaining amortization period	17 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	6.0%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed

BUTLER TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Edward G. Rendell
Governor
Commonwealth of Pennsylvania

Butler Township Police Pension Plan
Luzerne County
415 West Butler Drive
Drums, PA 18222

Mr. Ransom S. Young	Chairman, Board of Township Supervisors
Mr. Steven L. Hahn	Township Manager
Ms. Erin M. Braddock	Accounts Manager

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.