

# COMPLIANCE AUDIT

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## Cumru Township Police Pension Plan Berks County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

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June 2023



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Board of Township Commissioners  
Cumru Township  
Berks County  
Mohnton, PA 19540

We have conducted a compliance audit of the Cumru Township Police Pension Plan for the period January 1, 2019 to December 31, 2022. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the 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 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for plan members who retired and the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2020 and 2022, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Cumru Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2019, 2020, and 2021, 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 Cumru Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

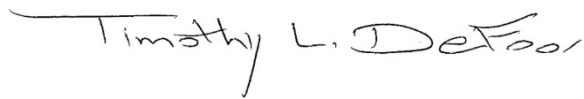
The results of our procedures indicated that, in all significant respects, the Cumru Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Recommendation – Pension Benefits Not  
In Compliance With Act 600 Provisions

The finding contained in this audit report repeats a condition that was cited in our previous seven audit reports that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Cumru Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor  
Auditor General  
June 16, 2023

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Noncompliance With Prior Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions.....	3
Supplementary Information .....	8
Report Distribution List .....	12

## 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.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) 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 Cumru Township Police Pension Plan is also governed by implementing regulations 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. § 767 et seq.

The Cumru Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 141, 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. The plan was established May 2, 1967. Active members were required to contribute 4.25, 4.50, 4.75, and 5.00 percent of compensation to the plan for the years 2019, 2020, 2021, and 2022, respectively. As of December 31, 2022, the plan had 23 active members, 1 terminated member eligible for vested benefits in the future, and 24 retirees receiving pension benefits from the plan.

CUMRU TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Status Of Prior Recommendation

· Pension Benefit Not Authorized By Act 600

As disclosed in the prior seven audit reports, the collective bargaining agreements between the township and its police offers for the periods of January 1, 2004 to December 31, 2007, and January 1, 2008 to December 31, 2011, provided for the inclusion of lump-sum payments for unused sick and vacation days that were not earned during the final 36 month averaging period for pension benefit calculations, and provided for cost-of-living adjustments for surviving spouses, all of which are not authorized by Act 600. In the collective bargaining agreement for the period January 1, 2012 to December 31, 2014, the township eliminated these excess benefits for police officers hired on or after January 1, 2012. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing or future 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. During prior audit periods, vacation days that were not earned during the final 36 months averaging period were included in the pension benefit calculations for three retirees who are receiving excess benefits totaling \$207 per month. During the current audit period, vacation days that were not earned during the final 36 month averaging period were included in the pension benefit calculation of a member who entered the DROP in December 2020. The DROP member is receiving excess benefits of approximately \$46 per month. Since the township received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to current and future retirees on the township's future state aid allocations during future audits of the plan, which may require the township to reimburse any excess state aid received attributable to the excess pension benefits to the Commonwealth.

Noncompliance With Prior Audit Recommendation

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

· Pension Benefits Not In Compliance With Act 600 Provisions

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions**

Condition: As disclosed in our prior seven audit reports, the pension plan’s governing document contains benefit provisions that conflict with the collective bargaining agreement between the township and its police officers and are not in compliance with Act 600.

Furthermore, as previously disclosed in prior audit reports, Act 600 was amended on April 17, 2002 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>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Member contributions	Member contributions shall be eliminated until an actuarial study indicates the plan will no longer be actuarially sound in the absence of member contributions. In making such a determination, the employer agrees to instruct the plan actuary that before any contributions would be requested from the members, all state funding which may be attributable to the police officers by applying the unit funding formula in Act 205 shall have been allocated to the pension plan to offset any financial obligation.	Employees shall pay into the Pension Fund, on a monthly basis, an amount equal to not less than five percent (5.0%) of the employee’s monthly compensation. The governing body of the Township may, on an annual basis, by Ordinance or Resolution, reduce or eliminate payments into the Pension Fund by employees.	If covered by Social Security, members shall pay into the fund, monthly, an amount determined as follows: (1) if the pension plan provides for no Social Security offset, 5% of total compensation. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.



CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Pre-vesting death benefit	A refund of the member's contributions to the Pension Fund shall be paid to his designated beneficiary if living or, if none is living, then to his estate.	Not addressed	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.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Survivor's benefit	The widow, or if no widow survives or remarries, then the child or children under the age of eighteen, shall be entitled to receive a pension calculated at the rate of fifty percentum (50%) of the pension the member was receiving or would have been receiving had he been retired at the time of his death.	Upon the participant's death, the surviving spouse, or the dependent children under the age of 19, or under the age of 23 and attending college, shall receive a benefit equal to 50% of the officer's pension.	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. ("Attending college" shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)
Service-related disability benefit	A monthly retirement benefit for life equal to fifty (50%) percent of the monthly average salary earned by such member during the last sixty months of his employment.	A disability pension equal to 50% of the participant's salary at the time the disability is incurred.	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.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

In addition, the collective bargaining agreement contains provisions which are in compliance with Act 600 but are not contained in the governing document, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service increment	Not addressed	Retiree shall receive a pension increase of one hundred dollars (\$100) per month for each completed year of service in excess of twenty-five years up to a maximum of five hundred dollars (\$500) per month after five completed years of service in excess of twenty-five years (30 years of service).	\$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.
Cost of living adjustments	Not addressed	Retiree shall be entitled to cost of living adjustments (30% cap).	The cost of living increase shall not exceed the percentage increase in the Consumer Price Index from the year in which the police member last worked, shall not cause the total police pension benefits to exceed 75% of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed 30%. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Criteria: The pension plan’s governing document and the collective bargaining agreement should contain consistent provisions that are in compliance with Act 600, as amended.

Cause: Municipal officials again failed to ensure 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. In addition, 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 again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to ensure the plan’s governing document and the collective bargaining agreement contain consistent provisions which are in compliance with Act 600, as amended, at their earliest opportunity to do so.

Management’s Response: Municipal officials agreed with the finding and provided the following response:

The Township acknowledges that an administrative finding has been made for the Police Pension Plan, comparing the governing document, the collective bargaining agreement, and Act 600. The Township also acknowledges that this finding has occurred for several audits.

Earlier this month, negotiations between the Township and the Cumru Township Police Officers Association began for a 2024 collective bargaining agreement. At the end of the meeting, the Township proposed to amend/restate the governing document, which is really a collection of several ordinances, with the goal of improving/resolving the finding. The CTPOA representatives stated receptivity to cooperate with such a goal.

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

CUMRU 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, 2017, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-17	\$ 11,098,005	\$ 14,611,949	\$ 3,513,944	76.0%
01-01-19	12,394,554	16,277,220	3,882,666	76.1%
01-01-21	17,390,945	18,213,226	822,281	95.5%

CUMRU 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.

CUMRU 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
2017	\$ 643,819	100.0%
2018	659,944	100.0%
2019	880,707	100.0%
2020	893,385	100.0%
2021	1,041,790	100.0%
2022	884,401	100.0%

CUMRU TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	2 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	For post January 1, 2000 retirees, annual COLA made to retired members with maximum total increase of 30%. Maximum benefit is 75% of salary used for computing retirement benefit.



CUMRU TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Joshua D. Shapiro**  
Governor  
Commonwealth of Pennsylvania

**Ms. Ruth A. O’Leary**  
President, Board of Township Commissioners

**Ms. Peggy Carpenter**  
Chief Administrative Officer

**Ms. Jeanne E. Johnston**  
Township Manager

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