

# COMPLIANCE AUDIT

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## Lower Paxton Township Police Pension Plan Dauphin County, Pennsylvania For the Period January 1, 2019 to December 31, 2022

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July 2023



Commonwealth of Pennsylvania  
Department of the Auditor General  
Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Board of Township Supervisors  
Lower Paxton Township  
Dauphin County  
Harrisburg, PA 17109

We have conducted a compliance audit of the Lower Paxton 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 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 the objective identified above. 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, elected to vest, or separated employment and received a lump-sum distribution 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 to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Lower Paxton 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 Lower Paxton 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

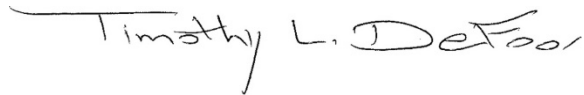
selected officials and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the Lower Paxton 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 – Improper Pension Benefit Calculation
- Finding No. 2 – Improper Disability Pension Benefit Calculation
- Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 Lower Paxton 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  
July 3, 2023

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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.

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 Lower Paxton 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 Lower Paxton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 07-08, 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 December 1, 1960. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2022, the plan had 59 active members, 3 terminated members eligible for vested benefits in the future, and 51 retirees receiving pension benefits from the plan.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Improper Pension Benefit Calculation**

Condition: The plan is paying a pension benefit to a retiree in excess of that authorized by Act 600 and the pension plan’s governing document, Ordinance No. 07-08. Based on a separation agreement between the police officer and the township, the township included a severance payment of \$35,000 in the determination of final average salary used to calculate the officer’s monthly pension benefits.

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 severance payments. Furthermore, Section 4.01 of the plan’s governing document, Ordinance No. 07-08, prescribes that the retirement benefit calculation is based on the participant’s average compensation, and Section 1.02 of the governing document defines compensation as follows:

**Compensation** means the total remuneration of the Employee, whether salary or hourly wages including overtime pay, longevity pay, and service increments paid by the Employer for police services rendered. Compensation does not include the buy-back of unused accumulated sick leave or unused accumulated vacation leave.

Cause: As stated in the Management Response below, township officials believed the plan’s governing document permitted the inclusion of the severance payment in the retiree’s pension benefit calculation and executed a separation agreement specifying that the payment would be included.

Effect: The plan is paying pension benefits to a retiree in excess of Act 600 and the plan’s governing document. As of the date of this report, the retiree is receiving excess benefits of \$461.47 per month, which totaled approximately \$24,458 from retirement until the date of this 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 for its pension plans 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 could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

**Recommendation:** We recommend that municipal officials adjust the retiree’s pension benefit in accordance with Act 600 and the provisions of the plan’s governing document. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to the retiree 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 aid. In such case, the pension plan’s actuary may be required to determine the impact, if any, of the excess benefit payments on the township’s future state aid allocations and submit this information to the Department. If it is determined the excess benefit payments had an impact on the township’s future state aid allocations after the submission of this information, the plan’s actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

We further recommend that future pension benefits be calculated and paid in accordance with the applicable provisions contained in the plan’s governing document in effect at the time of a plan member’s retirement.

**Management’s Response:** Municipal officials provided the following response:

The Township executed a separation agreement for severance payment that identified the payment to be includable in the retiree’s pension computations. Officials believed that compensation language included this severance as it was not “buy-back of unused accumulated sick leave or unused accumulated vacation leave” specifically excluded under Article 1, Section 1.02 of the plan document; however, it is agreed that such a supplemental payment is not explicitly stated. Therefore, the Township accepts the auditor’s finding.

**Auditor’s Conclusion:** Compliance will be subject to verification during our next audit of the plan.



LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Improper Disability Pension Benefit Calculation**

Condition: The plan is paying a disability retirement benefit to a retiree in excess of that authorized by Act 600 and the pension plan’s governing document, Ordinance No. 07-08. The township included a longevity payment of \$9,259.43 in the wages used to calculate the participant’s disability benefit.

Criteria: Section 5(e)(1) of Act 600 states:

In the case of the payment of pensions for permanent injuries incurred in service, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township or regional police department and shall be calculated at a rate no less than fifty per centum of the member’s salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et. seq.) shall have his disability benefits offset or reduced by the amount of such benefits.

Section 5.03 of the plan’s governing document, Ordinance No. 07-08, states, in part:

The disability benefit payable to a Participant who meets the requirements is an immediate monthly benefit equal to 50% of the Participant’s Salary at the Time the Disability was Incurred....

In addition, Section 1.02 of the plan’s governing document, Ordinance No. 07-08, states, in part:

**Participant’s Salary at the Time the Disability was Incurred** means the basic rate of pay for the calendar year during the year the disability occurred, subject to future interpretation by the state courts or state legislature, at which time this definition shall comply with the court or legislative interpretation.

Cause: Municipal officials were unaware that the inclusion of a longevity payment in the calculation of a disability pension benefit is not authorized by Act 600 or the plan’s governing document.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by Act 600 and the plan’s governing document. As of the date of this report, the retiree is receiving excess benefits of \$385.81 per month, which totaled approximately \$18,905 from retirement until the date of this report.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (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 for its pension plans 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 could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that municipal officials adjust the retiree’s pension benefit in accordance with Act 600 and the provisions of the plan’s governing document. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to the retiree 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 aid. In such case, the pension plan’s actuary may be required to determine the impact, if any, of the excess benefit payments on the township’s future state aid allocations and submit this information to the Department. If it is determined the excess benefit payments had an impact on the township’s future state aid allocations after the submission of this information, the plan’s actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

We further recommend that future pension benefits be calculated and paid in accordance with the applicable provisions contained in the plan’s governing document in effect at the time of a plan member’s retirement.

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

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

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$33,692 on the Certification Form AG 385 filed in 2019 and failed to certify two eligible police officers (4 units) and understated payroll by \$37,598 on the Certification Form AG 385 filed in 2020. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: The non-uniformed employee was hired July 1, 2018 and the police officers were hired July 1, 2019 and, as such, met the certification requirements. In addition, the township lacked adequate procedures such as having another individual review the accuracy of the data reported on the certification form prior to submission.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocations were based on unit value, the township received an underpayment of state aid in the amount of \$24,816 as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2019	Non-Uniformed	1	\$5,120	\$ 5,120
2020	Police	4	\$4,924	<u>19,696</u>
Total Underpayment of State Aid				<u><u>\$ 24,816</u></u>

Although the additional state aid will be allocated to the township, the full amount of the 2019 and 2020 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment and resulted in the township having to make additional municipal contributions in order to meet the plans’ funding obligation.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

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

LOWER PAXTON 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	\$22,949,702	\$ 29,124,775	\$ 6,175,073	78.8%
01-01-19	25,396,215	33,256,561	7,860,346	76.4%
01-01-21	29,789,783	37,967,724	8,177,941	78.5%

Note: The market values of the plan's assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

LOWER PAXTON 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.

LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2013	\$ 856,605	\$ 856,605	\$ -	\$4,281,572	20.01%
2014	868,304	868,304	-	4,436,005	19.57%
2015	1,063,399	1,063,399	-	4,519,407	23.53%
2016	1,165,107	1,165,107	-	4,685,623	24.87%
2017	1,163,830	1,163,830	-	4,919,546	23.66%
2018	1,181,408	1,181,408	-	5,076,864	23.27%
2019	1,353,346	1,353,346	-	5,216,310	25.94%
2020	1,306,621	1,306,621	-	5,754,758	22.71%
2021	1,690,357	1,696,051	(5,694)	5,680,580	29.86%
2022	1,696,051	1,696,051	-	5,849,337	29.00%

LOWER PAXTON 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	9 years
Asset valuation method	4-year smoothing, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	6.50%
Projected salary increases	5.50%
Cost-of-living adjustments	Effective on the first anniversary of retirement, an increase in monthly benefit before service increments, equal to the lesser of 2% or the increase in the Consumer Price Index. An increase each year until maximum increase of 2% is reached.



LOWER PAXTON TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Mr. Lowman S. Henry**  
Chairman, Board of Township Supervisors

**Mr. Bradley Gotshall**  
Township Manager

**Mr. R. Samuel Miller**  
Chief Administrative Officer

**Ms. Jada E. Handiboe**  
Finance Manager

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