

COMPLIANCE AUDIT

Southwestern Regional Police Pension Plan York County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

November 2014



Commonwealth of Pennsylvania
Department of the Auditor General

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EUGENE A. DePASQUALE
AUDITOR GENERAL

Southwestern Regional Police Board
York County
Spring Grove, PA 17362

We have conducted a compliance audit of the Southwestern Regional Police Pension Plan for the period January 1, 2011 to December 31, 2013. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* 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 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted, and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.

- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the unallocated insurance contracts, including ownership and any restrictions, are in compliance with plan provisions, investment policies, and state regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.

The Southwestern Regional Police Board contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the regional's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Regional officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Southwestern Regional 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 regional's internal controls as they relate to the regional's compliance with those requirements and that we considered to be significant within the context of our audit objectives, 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 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 tests indicated that, in all significant respects, the Southwestern Regional 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:

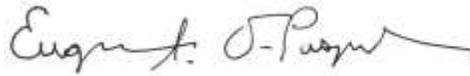
Finding No. 1 – Plan Document Not Adopted By Ordinance Or Resolution

Finding No. 2 – Inconsistent Pension Benefit Provision

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 the Southwestern Regional Police Board and, where appropriate, their responses have been included in the report. We would like to thank regional officials for the cooperation extended to us during the conduct of the audit.

October 21, 2014

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background	1
Status of Prior Finding	3
Findings and Recommendations:	
Finding No. 1 - Plan Document Not Adopted By Ordinance Or Resolution	4
Finding No. 2 - Inconsistent Pension Benefit Provision	5
Supplementary Information	6
Report Distribution List	10

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.

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 Southwestern Regional 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 Southwestern Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a separately executed plan agreement effective January 1, 2012, pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the Southwestern Regional Police Board and its police officers. The plan was established July 15, 1971. Active members are required to contribute 5 percent of their monthly compensation to the plan. As of December 31, 2013, the plan had 14 active members, 1 terminated member eligible for vested benefits in the future, 1 retiree receiving pension benefits from the plan, and 2 retirees receiving benefits funded through annuities purchased with plan assets.

BACKGROUND – (Continued)

As of December 31, 2013, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of benefit service.
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of Basic Monthly Earnings (BME) multiplied by a fraction equal to total years of service earned to date divided by number of years of service projected to the participant's normal retirement age. Service is credited for each month of service completed. BME is the final 36 consecutive month period of employment.

Survivor Benefit:

After Retirement Eligibility	Killed in service benefit (paid by state) – 100% of final salary continued to surviving spouse and dependent children. If death is not service-related, plan provides 50% of the benefit the member was or could have been receiving if retired.
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Service Related Disability Benefit:

If a participant incurs a total and permanent disability prior to retirement age, he/she shall receive a monthly income equal to 50% of basic monthly earnings earned at the time of disability.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

The regional has complied with the prior audit recommendation concerning the following:

- Pension Benefits Not In Compliance With Act 600 Provisions

The separately executed plan agreement, effective January 1, 2012, contains provisions that are in compliance with Act 600 provisions; however, the new plan agreement has not been formally adopted by an ordinance or resolution and contains an inconsistent definition of the compensation to be used for the determination of a normal retirement benefit, as indicated in the Findings contained in this report.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Plan Document Not Adopted By Ordinance Or Resolution

Condition: The terms, provisions and conditions of the police pension plan were restated in a separately executed plan agreement with the Standard Insurance Company effective January 1, 2012; however, the restated plan agreement has not been formally adopted by an ordinance or resolution.

Criteria: Act 600 at Section 1(a)(1) states, in part:

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund. . . .

Cause: Plan officials were unaware that the restated plan agreement must be formally adopted through a properly executed ordinance or resolution.

Effect: The failure to properly adopt the plan agreement could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We recommend that regional officials take appropriate action to formally adopt the restated plan document through a properly executed ordinance or resolution at their earliest opportunity to do so.

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

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Inconsistent Pension Benefit Provision

Condition: The pension plan’s governing document, effective date January 1, 2012, contains a definition of the compensation to be used to determine a normal retirement benefit that conflicts with the collective bargaining agreement between the police officers and the Southwestern Regional Police Board, as noted below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Compensation definition for Normal Retirement Benefit	Compensation...shall include regular pay after severance of employment if the payment is regular compensation for service during the participant’s regular working hours, or compensation for services outside the participant’s regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and the payments would have been paid to the participant prior to a severance from employment if the participant had continued in employment with the Employer.	The average gross <u>monthly base salary</u> for the last thirty-six (36) months shall be used to establish benefits. (Emphasis added)

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Regional officials failed to establish adequate internal control procedures to ensure that the governing document and the collective bargaining agreement contained a consistent definition of the compensation to be used to determine a normal retirement benefit.

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

Recommendation: We recommend that regional officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain a consistent definition of the compensation to be used for the determination of a normal retirement benefit at their earliest opportunity to do so.

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

Auditor’s Conclusion: Compliance will be subject to verification through our next audit.

SOUTHWESTERN REGIONAL 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, 2009, 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)]
01-01-09	\$ 1,187,221	\$ 1,307,206	\$ 119,985	90.8%	\$ 772,626	15.5%
01-01-11	1,911,026	1,690,575	(220,451)	113.0%	824,934	(26.7%)
01-01-13	2,403,373	2,191,030	(212,343)	109.7%	752,351	(28.2%)

SOUTHWESTERN REGIONAL 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. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2008	\$ 69,867	116.2%
2009	69,822	107.5%
2010	82,607	101.8%
2011	84,501	172.2%
2012	82,673	100.0%
2013	85,611	100.1%

SOUTHWESTERN REGIONAL 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, 2013
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	3.5%
Cost-of-living adjustments	2.5% per year

SOUTHWESTERN REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Southwestern Regional Police Pension Plan
York County
6115 Thoman Drive
Spring Grove, PA 17362

Mr. Larry Miller Chairman, Southwestern Regional Police Board

Ms. Velda Nickell Chief Administrative Officer

This report is a matter of public record and is available online at www.auditorgen.state.pa.us.
Media questions about the report can be directed to the Pennsylvania Department of the Auditor
General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to:
news@auditorgen.state.pa.us.