

# COMPLIANCE AUDIT

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## Susquehanna Regional Non-Uniformed Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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October 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
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Susquehanna Regional Police Commission  
Lancaster County  
Marietta, PA 17547

We have conducted a compliance audit of the Susquehanna Regional Non-Uniformed Pension Plan for the period January 1, 2012 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. 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 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 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × We determined that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- × We determined that there were no benefit calculations prepared for the years covered by our audit period.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 contracts with the plan's provisions, investment policies, and state regulations.
- × We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Susquehanna Regional Non-Uniformed 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 commission's internal controls as they relate to the commission'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 and as previously described, 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 procedures indicated that, in all significant respects, the Susquehanna Regional Non-Uniformed 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 – Partial Compliance With Prior Audit Recommendation –  
Failure To Properly Fund Member Accounts

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

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

September 25, 2015



EUGENE A. DEPASQUALE  
Auditor General

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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.

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 Susquehanna Regional Non-Uniformed 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.

The Susquehanna Regional Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No.2013-0001. The plan was established January 1, 2006. Active members are not required to contribute to the plan. The regional police commission is required to contribute 11 percent of each participant's annual compensation. As of December 31, 2014, the plan had 2 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits from the plan.

SUSQUEHANNA REGIONAL NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Susquehanna Regional has complied with the prior audit recommendation concerning the following:

- Improper Ownership Of Money Purchase Plan

Commission officials took the appropriate steps to correctly change the ownership of the money purchase plan account from the plan member to the pension plan.

Partial Compliance With Prior Audit Recommendation

Susquehanna Regional has partially complied with the prior audit recommendation concerning the following:

- Failure To Properly Fund Member Accounts

Commission officials correctly deposited the contributions due to the member's account, with interest, for the years 2010 and 2011; however, a similar condition occurred during the current audit period as further discussed in the Finding and Recommendation section of this report.

SUSQUEHANNA REGIONAL NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial With Prior Audit Recommendation – Failure To Properly Fund Member Accounts**

Condition: As disclosed in the Status of Prior Findings section of this report, commission officials deposited the outstanding contributions due an eligible participant for the years 2010 and 2011, with interest, and properly allocated these funds to the member's account; however, a similar condition occurred during the current audit period. During 2014, commission officials failed to properly fund the pension accounts of 2 eligible participants in the total amount of \$6,507. Although commission officials properly deposited \$6,507 with the plan's custodian, officials failed to ensure that these funds were properly allocated into these members' individual accounts. Moreover, the custodian in turn used these unallocated funds to pay an outstanding administrative expense of the pension plan in the amount of \$140, with the remaining \$6,367 being applied as a credit towards future plan expenditures.

Criteria: The plan's governing document, Resolution No. 2013-001, which adopted a separately executed plan agreement with the plan's custodian, established the municipal contribution rate at 11 percent of each participant's annual compensation.

Cause: Commission officials again failed to establish adequate internal control procedures to ensure that members' accounts were properly funded in accordance with the plan document.

Effect: The continued failure to properly fund members' accounts could result in plan members being denied benefits or provide benefits in excess of those to which they are entitled in accordance with the plan's governing document. In addition, due to the commission's failure to properly fund the referenced members' accounts, the commission must now pay interest on the delinquent contributions.

Recommendation: We recommend the commission properly fund the remaining contributions due to the 2 members' accounts for the year 2014, with interest from the date of deposit of the municipal contributions which were made in that year to the date of deposit of the amount in arrears. A copy of the interest calculation must be maintained by the commission for examination during our next audit of the plan.

Finally, we again recommend that plan officials implement adequate internal control procedures to ensure that in the future, member accounts are properly funded in accordance with the provisions contained in the plan's governing document.

SUSQUEHANNA REGIONAL NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Management's Response: Commission officials acknowledged the error and confirmed that funds in the amount of \$6,507, plus interest, will be properly allocated into these members' accounts, accordingly. The plan custodian also acknowledged the error and will prepare a loss of earnings statement from November 11, 2014 until September 15, 2015 and fund any additional amounts owed.

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

SUSQUEHANNA REGIONAL NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2009	None	\$ 3,704
2010	None	4,789
2011	None	4,791
2012	None	6,745
2013	None	6,580
2014	None	6,507*

\* Although the commission deposited the 2014 MMO amount due the non-uniformed pension plan during 2014, these funds were not properly allocated to members' accounts as disclosed in the Finding and Recommendation section of this report.

SUSQUEHANNA REGIONAL NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Susquehanna Regional Non-Uniformed Pension Plan  
Lancaster County  
188 Rock Point Road  
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Mr. Stephen Mohr            Chairman, Regional Police Commission

Mr. Charles E. Haugh      Chief Administrative Officer

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).