

**SOUTHWESTERN REGIONAL POLICE PENSION PLAN**

**YORK COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2007, TO DECEMBER 31, 2008**





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## BACKGROUND

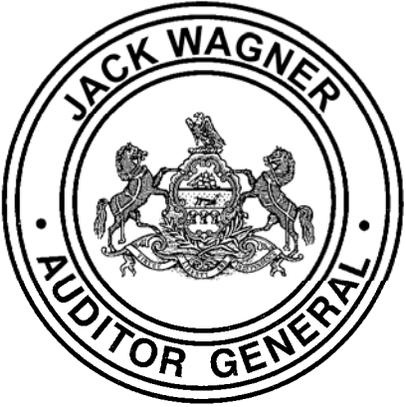
On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state 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.

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 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 Resolution No. 5-01, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the Southwestern Regional Police Board and the Southwestern Regional Police Officers Association.



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, 2007, 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 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 were 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. 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 police board's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Regional police board 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 police board's internal controls as they relate to the regional police board's compliance with those requirements and that we considered to be significant within the context of our audit objective, 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 the extent necessary to satisfy the audit objective.

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 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid
- Finding No. 3 – Pension Benefits Not In Compliance With Act 600 Provisions

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 the Southwestern Regional Police Board and, where appropriate, their responses have been included in the report.

December 10, 2009

JACK WAGNER  
Auditor General

SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

Condition: The regional police board did not deposit the full amount of its 2008 state aid allocation into its pension plans. The regional police board received its 2008 state aid allocation in the amount of \$86,031; however, only \$81,947 was deposited into its pension plans. Since the regional fully funded its nonuniformed defined contribution pension plan, the balance of the 2008 state aid allocation should be deposited into the police pension plan.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the full amount of the 2008 state aid allocation was deposited in accordance with Act 205 provisions.

Effect: When state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the regional police board deposit the \$4,084 balance of the 2008 state aid allocation, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, into the police pension plan. A copy of the interest calculation must be maintained by the regional police board for examination during our next audit of the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited within 30 days of receipt in accordance with Act 205 provisions.

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

Finding No. 2 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The regional police board failed to certify 1 eligible police officer (2 units) and understated payroll by \$24,594 in 2007 on Certification Form AG 385.

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.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials were unaware of the applicable Act 205 guidelines for the certification of eligible employees.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the regional police board for distribution to its pension plans. Because the regional’s state aid allocation was based on unit value, the regional received an underpayment of state aid of \$6,412 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2007	2	\$ 3,206	\$ 6,412

Although the regional will be reimbursed for the underpayment of state aid due to the certification error, the full amount of the 2007 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that, in the future, plan officials comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension plan data.

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

Finding No. 3 – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: The pension plan’s governing document, Resolution No. 05-01, contains benefit provisions that are not in compliance with Act 600.

Furthermore, on April 17, 2002, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Plan officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

The specific inconsistencies are as follows:

<u>Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Member contributions	An Active Participant shall be required to contribute or not contribute to the plan, subject to the direction of the plan sponsor. The amount to be contributed, if any, shall be determined annually by the employer and shall equal a percentage of each participant's compensation that is attributable to service performed by the participant while he was an eligible employee. (Member contributions are currently waived)	Members shall pay into the fund, monthly, an amount equal to not less than 5% or more than 8% of monthly compensation, if not covered by Social Security. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.
Intervening military service credit	Upon his timely return to service within six months of separation from military service, an employee with six months of service prior to the military service shall also be credited with up to five years of benefit service for employment with the U.S. Military to the extent the employee would normally have been scheduled to work for the employer and to the extent he will not receive military retirement pay for his military service.	An intervening military service provision which indicates that any member of the police force employed by a municipality for at least 6 months and who enters into military service of the United States shall have credited to his employment record for pension or retirement benefits all of the time spent in such military service, if such member returns to his employment within 6 months after his separation from military service.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: A governing document which contains clearly defined and updated provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the police pension plan's benefit structure should be in compliance with Act 600, as amended.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan was in full compliance with Act 600, as amended.

Effect: 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.

Furthermore, if the regional police board reinstates member contributions, the member contribution rate that is established may not be in compliance with Act 600 provisions.

Recommendation: We recommend that plan officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan into compliance with Act 600, as amended, at their earliest opportunity to do so.

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

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, 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	\$ 928,469	\$ 661,740	\$ (266,729)	140.3%	\$ 381,953	(69.8%)
01-01-05	1,217,287	907,426	(309,861)	134.1%	643,636	(48.1%)
01-01-07	1,562,673	1,234,137	(328,536)	126.6%	693,845	(47.4%)

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. However, 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
2003	\$ 3,213	168.1%
2004	68,777	104.8%
2005	64,010	118.9%
2006	74,918	111.3%
2007	79,985	100.0%
2008	69,867	109.8%

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, 2007
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 *	7.5%
Projected salary increases *	5.0%
* Includes inflation at	Not disclosed
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 Edward G. Rendell  
Governor  
Commonwealth of Pennsylvania

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

Mr. John B. Rebert	Chairman, Southwestern Regional Police Board
Ms. Velda Nickell	Chief Administrative Officer

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](http://www.auditorgen.state.pa.us).