COMPLIANCE AUDIT

Central Bucks Regional Non-Uniformed Pension Plan

Bucks County, Pennsylvania

For the Period
January 1, 2018 to December 31, 2021

August 2022

TIMOTHY L. DeFOOR • AUDITOR GENERAL •

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

Regional Police Commissioners
Central Bucks Regional
Bucks County
Doylestown, PA 18901

We have conducted a compliance audit of the Central Bucks Regional Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2021. 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 findings 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 findings 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 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 whether retirement benefits calculated for the plan member who retired 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.

- 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.

Central Bucks Regional contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2018, 2019, and 2020 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.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Central Bucks Regional Non-Uniformed 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 Central Bucks 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 Recommendation - Failure To Fully Pay The Minimum Municipal Obligation Of The Plan

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by commission officials. We are concerned by the commission'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 Central Bucks Regional 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.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
June 13, 2022

CONTENTS

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 Central Bucks Regional Non-Uniformed 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.

The Central Bucks Regional Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2014-1, as amended. The plan is also affected by the provisions of collective bargaining agreements between the regional and its non-uniformed employees. The plan was established January 1, 2014. Active members are not required to contribute to the plan. As of December 31, 2021, the plan had four active members and one retiree receiving pension benefits.

CENTRAL BUCKS REGIONAL NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Status of Prior Audit Recommendations

- Receipt of State Aid Questionable Due To Failure To Properly Fund Newly Enacted Employees' Pension Plan In Accordance With Act 205;
- Failure To Determine And Submit The Financial Requirements And Minimum Municipal Obligation Of The Plan; and
- Failure To Budget And Pay The Minimum Municipal Obligation Of The Plan

It was previously disclosed in the prior audit report that it was the intention of the regional commission to treat this plan as an extension of the participating municipalities' existing pension plans *(Doylestown Borough and New Britain Borough)*. However, the regional commission did not properly fund the non-uniformed pension plan during the prior audit period in accordance with Act 205 or receive any corresponding transferred funds from the participating municipalities' former pension plans representing the accumulated assets associated with the existing pension liabilities for the service time already accumulated by the three former municipal employees *(two former Doylestown Borough and one former New Britain Borough employees)* prior to transferring into the service of the regional police department *(with the exception of accumulated members' contributions associated with the two former Doylestown Borough employees; New Britain Borough did not require members' contributions)*. It was previously discussed with plan officials that the failure to transfer the assets associated with the liabilities and service time already accumulated by the three former municipal employees prior to transferring into the service of the regional police department appeared contrary to the commission's intent to treat this plan as a continuation of the participating municipalities' existing pension plans. It was also recommended that the commission, along with assistance from the plan's actuary and/or consultant, determine and fund the annual financial requirements of the plan and minimum municipal obligation (FRP-MMO) for the prior years *(2014, 2015 and 2016)* and fund the plan, accordingly, in accordance with Act 205 or return the 2016 and 2017 state aid allocations received to the Commonwealth.

During the current audit period, commission officials, with assistance from the plan's consultant, facilitated the transfer of the accumulated assets of the former municipalities' pension plans representing the initial accrued liability for two of the three former municipalities' employees *(Doylestown Borough)* into the Central Bucks Regional Non-Uniformed Pension Plan on June 23, 2020 in the amount of $178,304 and subsequently on April 22, 2022, for the remaining transferred individual *(New Britain Borough)*, in the amount of $24,842, and calculated the plan's respective FRP-MMOs for the prior years *(2014, 2015 and 2016)*, based on detailed information accumulated by the commission, as recommended. The department commends the commission on its efforts to comply with the prior recommendation and is agreeable to the proposed MMOs as determined; however, based on documentation provided, the commission did not fully pay the recalculated MMOs for the prior years as further discussed in the Finding and Recommendation section of this report.

CENTRAL BUCKS REGIONAL NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Recommendation – Failure To Fully Pay The Minimum Municipal Obligations Of The Plan

Condition: As disclosed in the Status of Prior Findings section of this report, the commission partially complied with the prior recommendation by transferring the accumulated assets from the former municipalities' pension plans for the three former municipalities' employees and calculating the plan's respective FRP-MMOs for the years 2014, 2015 and 2016. However, based on the commission's calculations, there remains an outstanding obligation due to the non-uniformed pension plan in the total amount of $5,605 *($2,301 for 2014, $1,636 for 2015 and $1,668 for 2016)* according to records provided.

Criteria: Section 302(d) of Act 205 states, in part:

> Annually, the municipality shall provide for the full amount of the minimum obligation of the municipality in the budget of the municipality. The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

> Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials did not fully comply with the Act 205 requirements because originally, plan officials believed that it was not possible to calculate the FRP and plan specific MMOs using information and cost factors from an Act 205 report which did not yet exist, and that additional funding would not be necessary for this plan since this was a continuation of one of the participating municipality's non-uniformed pension plans. In an effort to comply with the prior recommendation, commission officials, along with assistance from the plan consultant, prepared an MMO worksheet for the years 2014, 2015 and 2016, alongside the MMOs of the participating municipalities, and after receiving the transfers from the participating municipalities for the accumulated service time of the three former municipal employees, noted earlier in this report, and

Finding – (Continued)

making payments of the plan's full MMOs during 2017 through 2020, which included an amortization component for the initial accrued pension liability, officials believed that the additional residual MMO amounts would not be required.

Effect: The failure to fully pay the recalculated MMOs represents a deviation from Act 205 and could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the commission's failure to fully pay the outstanding MMOs by the December 31, deadlines, the commission must add the unpaid MMOs to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the commission pay the outstanding MMOs due to the non-uniformed pension plan for the years 2014, 2015 and 2016, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the regional commission for examination during our next audit of the plan.

Management's Response: The Commission understands the Department's position and will review the audit report after it is issued and take the appropriate action.

Auditor's Conclusion: Compliance will be monitored through our next audit of the plan.

CENTRAL BUCKS REGIONAL NON-UNIFORMED 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	$ 64,662	$ 278,060	$ 213,398	23.3%
01-01-19	153,094	327,141	174,047	46.8%
01-01-21	493,154	548,796	55,642	89.9%

CENTRAL BUCKS REGIONAL NON-UNIFORMED 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.

CENTRAL BUCKS REGIONAL NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll*	Contributions as a Percentage of Covered-Employee Payroll
2015	$ -	$ -	$ -	$ 144,138	0.00%
2016	-	-	-	155,612	0.00%
2017	38,308	51,432	(13,124)	157,135	32.73%
2018	38,458	38,458	-	163,523	23.52%
2019	38,771	38,771	-	168,453	23.02%
2020	39,087	39,087	-	175,894	22.22%
2021	39,811	39,811	-		

* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

CENTRAL BUCKS REGIONAL NON-UNIFORMED 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	14 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	Not to exceed the increase in the CPI from year to year. Total adjustments not to exceed 75% of the retiree's salary for computing retirement benefits or 30% of the retiree's original pension.

CENTRAL BUCKS 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

Ms. Robyne Kelemen
Chairperson, Regional Police Commission

Ms. Elnora West
Vice Chairperson, Regional Police Commission

Mr. Brian Wallace
Secretary/Treasurer

Mr. Jack O'Brien
Regional Commissioner

Ms. Marilyn Jacobson
Regional Commissioner

Mr. John Wolff
Regional Commissioner

Mr. Karl Knott
Chief of Police

Ms. Caroline Brinker
Finance Director

This report is a matter of public record and is available online at 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.