COMPLIANCE AUDIT

Central Bucks Regional Police 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 Police 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding 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 and the plan member who elected to vest 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 or payable 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 provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

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 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 Central Bucks 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 finding further discussed later in this report:

Finding – Inconsistent And Unauthorized Pension Benefit

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 Commission officials for the cooperation extended to us during the conduct of the audit.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
June 8, 2022

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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 Central Bucks Regional 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 Central Bucks Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2015-06, adopted pursuant to Act 600, and a separately executed plan agreement effective January 1, 2014. The plan is also affected by the provisions of collective bargaining agreements between the Commission and its police officers. The plan was established January 1, 2014. Active members are required to contribute five percent of compensation to the plan. As of December 31, 2021, the plan had 24 active members, 1 terminated member eligible for vested benefits in the future, and 21 retirees receiving pension benefits.

Finding – Inconsistent And Unauthorized Pension Benefit

Condition: The collective bargaining agreement (CBA) between the police officers and the regional police commission, covering the period January 1, 2016, to December 31, 2020, granted a length of service increment in excess of the plan's governing document, Resolution No. 2016-06, and Act 600. Section 8 of Article 22 of the CBA, states the following:

> Length of Service Increments – Effective April 1, 1999, a service increment of Five Hundred Dollars ($500.00) per month increase in a retiring Police Officer's monthly pension benefit shall be provided to Police Officers who retire and have completed twenty-six (26) or more years of full time service. Such length of service increments shall be paid in addition to other pension amounts payable hereunder.

It should be noted that Section 8(a) of the most recently negotiated CBA, covering the period January 1, 2021, through December 31, 2025, noted below, has since been added limiting the aforementioned excess length of service increment to police officers hired prior to January 1, 2021.

> Effective, January 1st, 2021, all new employees shall receive service increments as listed below in accordance with Act 600. 26 years of service = $100 per month, 27 years of service = $200 per month, 28 years of service = $300 per month, 29 years of service = $400 per month, 30 years of service = $500 per month.

Criteria: Section 5(f) of Act 600 states, in part:

> Any borough, town, township or regional police department may establish and pay length of service increments for years of service beyond twenty-five years for each completed year of service in excess of twenty-five years, not to exceed one hundred dollars ($100) per month for each completed year of service in excess of twenty-five years <u>up to a maximum of five hundred dollars ($500) per month after five completed years of service in excess of twenty-five years</u>. Such length of service increments may be paid in addition to other monthly pension or retirement allowances. (Emphasis added)

In addition, Section 3.2(d) of the plan's governing document, Resolution No. 2015-06, (*which adopted a comprehensive police pension plan document)*, states:

> Each eligible participant shall receive a service increment benefit of $100 per month for each completed year of benefit service in excess of 25. The total service increment benefit shall not exceed $500 per month. This benefit shall be payable in addition to the monthly benefit payable under the pension benefit formula, provided the participant is eligible.

Finding – (Continued)

Cause: Commission officials failed to ensure the police pension plan's benefit structure, including benefits negotiated through collective bargaining, was consistent among plan documents and maintained in accordance with Act 600.

Effect: Inconsistent provisions among varying plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, maintaining a benefit structure which is not in compliance with Act 600 resulted in a plan member who retired in September 2021 receiving benefits 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 $200 per month, which totaled approximately $1,800 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 commission received state aid based on unit value 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 increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: To the extent that the commission is not in compliance with Act 600 and/or is contractually obligated to pay excess benefits to current retirees, the 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 pension aid. In such case, officials should consult with the plan's actuary to determine if Supplemental Actuarial Information Form AG-MP-1 should be prepared. If it is determined the unauthorized benefits had an impact on the commission's state aid allocations received during subsequent audit periods, the form should be submitted to the Department. Furthermore, after the submission of the form, the plan's actuary should contact the Department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

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

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

CENTRAL BUCKS 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, 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	$ 8,254,918	$ 11,322,101	$ 3,067,183	72.9%
01-01-19	8,655,828	13,162,957	4,507,129	65.8%
01-01-21	11,730,452	15,275,113	3,544,661	76.8%

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 POLICE 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	$ 353,419	$ 353,419	$ -	$1,695,765	20.84%
2016	457,547	457,547	-	2,382,605	19.20%
2017	419,283	419,283	-	2,517,437	16.66%
2018	419,674	419,674	-	2,523,406	16.63%
2019	543,625	543,625	-	2,791,201	19.48%
2020	554,980	554,980	-	2,953,627	18.79%
2021	749,727	749,727	-		

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

CENTRAL BUCKS REGIONAL 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	11 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed

CENTRAL BUCKS REGIONAL POLICE 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

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