

# COMPLIANCE AUDIT

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## Cumru Township Police Pension Plan Berks County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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June 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Township Commissioners  
Cumru Township  
Berks County  
Mohnton, PA 19540

We have conducted a compliance audit of the Cumru Township Police Pension Plan for the period January 1, 2015 to December 31, 2018. 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 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. 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.

- 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 all five of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, 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.

Cumru Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Cumru Township 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 township's internal controls as they relate to the township'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 Cumru Township 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 – Partial Compliance With Prior Audit Recommendation –  
Pension Benefits Not In Compliance With Act 600 Provisions

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit 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 Cumru Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.

June 5, 2019



EUGENE A. DEPASQUALE  
Auditor General

# CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings .....	3
Finding and Recommendation:	
Finding – Partial Compliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions .....	4
Supplementary Information .....	10
Report Distribution List .....	14

## 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 Cumru Township Police Pension Plan is also governed by implementing regulations adopted by the former 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. § 767 et seq.

The Cumru Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 141, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established May 2, 1967. Active members are required to contribute 4 percent of compensation to the plan. As of December 31, 2018, the plan had 20 active members, no terminated members eligible for vested benefits in the future, and 24 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement    Age 50 and 25 years of service.

Early Retirement     None

Vesting                100% after 12 years of service.

### Retirement Benefit:

50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month.

### Survivor Benefit:

Before Retirement Eligibility    Refund of member contributions plus interest.

After Retirement Eligibility     A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

The greater of 50% of the member's salary, or 50% of average monthly pay at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

CUMRU TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendation

· Pension Benefit Not Authorized By Act 600

As disclosed in the prior six audit reports, the collective bargaining agreements between the township and its police officers for the periods of January 1, 2004 to December 31, 2007, and January 1, 2008 to December 31, 2011, provided for the inclusion of lump-sum payments for unused sick and vacation days that were not earned during the final 36 month averaging period for pension benefit calculations, and provided for cost-of-living adjustments for surviving spouses, all of which are not authorized by Act 600. In the collective bargaining agreement for the period January 1, 2012 to December 31, 2014, the township eliminated these excess benefits for police officers hired on or after January 1, 2012. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing or future retirees in excess of those authorized by Act 600, the excess 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. During prior audit periods, vacation days that were not earned during the final 36 months averaging period were included in the pension benefit calculations for 2 retirees who are receiving excess benefits totaling \$202 per month. During the current audit period, vacation days that were not earned during the final 36 month averaging period were included in the pension benefit calculation of a member who entered the deferred retirement option plan (DROP) in November 2015. The DROP member is receiving excess benefits of approximately \$5 per month. Since the township received state aid based on unit value during the audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to current retirees and future retirees on the township's future state aid allocations during subsequent audits of the plan, which may require the township to reimburse any excess state aid received attributable to the excess pension benefits to the Commonwealth.

Partial Compliance With Prior Audit Recommendation

Cumru Township has partially complied with the prior audit recommendation concerning the following:

· Pension Benefits Not In Compliance With Act 600 Provisions

In the collective bargaining agreement between the township and its police officers for the period January 1, 2019 through December 31, 2023, the language regarding member contributions was brought into compliance with Act 600. However, the remaining provisions cited in the prior audit recommendation have not been addressed as discussed in the Finding and Recommendation section of this report.



CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Partial Compliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions**

Condition: As disclosed in our prior six audit reports, the pension plan’s governing document contains benefit provisions that conflict with the collective bargaining agreement between the township and its police officers and which are not in compliance with Act 600. During the current audit period, the township was able to bring the language regarding member contributions in the collective bargaining agreement between the township and its police officers for the period January 1, 2019 through December 31, 2023, into compliance with Act 600. However, the remaining provisions cited in the prior audit recommendation have not been addressed.

Furthermore, as previously disclosed, 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. Municipal officials have not amended the police pension plan’s benefit structure to adopt all of the changes mandated by Act 30. The specific inconsistencies are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Member contributions	Member contributions shall be eliminated until an actuarial study indicates the plan will no longer be actuarially sound in the absence of member contributions. In making such a determination, the employer agrees to instruct the plan actuary that before any contributions would be requested from the members, all state funding which may be attributable to the police officers by applying the unit funding formula in Act 205 shall have been allocated to the pension plan to offset any financial obligation.	Employees shall pay into the Pension Fund, on a monthly basis, an amount equal to not less than five percent (5.0%) of the employee’s monthly compensation. The governing body of the Township may, on an annual basis, by Ordinance or Resolution, reduce or eliminate payments into the Pension Fund by employees.	If covered by Social Security, members shall pay into the fund, monthly, an amount determined as follows: (1) if the pension plan provides for no Social Security offset, 5% of total compensation. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Pre-vesting death benefit	A refund of the member's contributions to the Pension Fund shall be paid to his designated beneficiary if living or, if none is living, then to his estate.	Not addressed	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of eighteen years, or, if attending college, under or attaining the age of twenty-three years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member's investment in the pension fund, unless the member has designated another beneficiary for this purpose.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Survivor's benefit	The widow, or if no widow survives or remarries, then the child or children under the age of eighteen, shall be entitled to receive a pension calculated at the rate of fifty percentum (50%) of the pension the member was receiving or would have been receiving had he been retired at the time of his death.	Upon the participant's death, the surviving spouse, or the dependent children under the age of 19, or under the age of 23 and attending college, shall receive a benefit equal to 50% of the officer's pension.	A lifetime survivor's benefit must be provided to the surviving spouse (or if no spouse survives or if he or she subsequently dies, the child or children under 18 years of age or if attending college, under or attaining the age of 23) of no less than 50% of the pension the member was receiving or would have been entitled to receive had he been retired at the time of death. ("Attending college" shall mean the eligible children are registered at an accredited institution of higher learning and are carrying a minimum course load of 7 credit hours per semester.)

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service-related disability benefit	A monthly retirement benefit for life equal to fifty (50%) percent of the monthly average salary earned by such member during the last sixty months of his employment.	A disability pension equal to 50% of the participant's salary at the time the disability is incurred.	The benefit must be in conformity with a uniform scale and fixed by the plan's governing document at no less than 50% of the member's salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

In addition, the collective bargaining agreement contains provisions which are in compliance with Act 600 but are not contained in the governing document, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Service increment	Not addressed	Retiree shall receive a pension increase of one hundred dollars (\$100) per month for each completed year of service in excess of twenty-five years up to a maximum of five hundred dollars (\$500) per month after five completed years of service in excess of twenty-five years (30 years of service).	\$100 per month for each completed year of service in excess of 25 years up to a maximum of \$500 per month after 5 completed years of service in excess of 25 years.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600 (as amended)</u>
Cost of living adjustments	Not addressed	Retiree shall be entitled to cost of living adjustments (30% cap).	The cost of living increase shall not exceed the percentage increase in the Consumer Price Index from the year in which the police member last worked, shall not cause the total police pension benefits to exceed 75% of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed 30%. No cost of living increase shall be granted which would impair the actuarial soundness of the pension fund.

Criteria: The pension plan’s governing document and the collective bargaining agreement should contain consistent provisions that are in compliance with Act 600, as amended.

Cause: Municipal officials failed to ensure that the plan’s governing document and the collective bargaining agreement contained consistent provisions that are in compliance with Act 600, as amended. In addition, municipal officials failed to ensure full compliance with the prior audit recommendation.

Effect: Inconsistent 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 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

CUMRU TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to ensure the plan’s governing document and the collective bargaining agreement contain consistent provisions which are in compliance with Act 600, as amended, at their earliest opportunity to do so.

Management’s Response: Municipal officials provided the following response:

During contract negotiations with the police association in 2018, the Township attempted to address the matter of proposing pension demands based on the last compliance audit in order to be compliant with Act 600. Since a consolidated agreement was finally signed and effective in 2019, it is the Township Manager’s hope that the Township will address the ordinance.

Auditor’s Conclusion: This finding repeats a condition that was cited in our previous six audit reports that has not been corrected by township officials. We are concerned by the township’s failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this audit report.

CUMRU TOWNSHIP 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, 2013, 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)
01-01-13	\$ 8,540,541	\$ 12,320,381	\$ 3,779,840	69.3%
01-01-15	10,868,161	13,366,992	2,498,831	81.3%
01-01-17	11,098,005	14,611,949	3,513,944	76.0%

Note: The market values of the plan's assets at 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

CUMRU TOWNSHIP 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.



CUMRU TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2013	\$ 579,388	100.0%
2014	529,028	100.0%
2015	765,016	100.0%
2016	790,626	100.0%
2017	643,819	100.0%
2018	659,944	100.0%

CUMRU TOWNSHIP 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, 2017
Actuarial cost method	Entry age normal.
Amortization method	Level dollar.
Remaining amortization period	10 years
Asset valuation method	Market value.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% per year.

CUMRU TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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Township Manager

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