

# COMPLIANCE AUDIT

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## Darby Borough Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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January 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov

EUGENE A. DePASQUALE  
AUDITOR GENERAL

The Honorable Mayor and Borough Council  
Darby Borough  
Delaware County  
Darby, PA 19023

We have conducted a compliance audit of the Darby Borough 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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 findings 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 both plan members 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 benefit due to the retired individual and comparing this amount to supporting documentation evidencing amounts determined and actually paid to the recipient. We also determined whether retirement benefits calculated for the sole plan member who elected to vest 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 in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individual and comparing this amount to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Darby Borough 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 borough's internal controls as they relate to the borough'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 Darby Borough 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 – Partial Compliance With Prior Audit Recommendation – Failure To Timely And Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Nonservice-Related Disability Pension Benefit Not Authorized By Act 600 Or The Plan's Governing Document
- Finding No. 4 – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit
- Finding No. 5 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by borough officials. We are concerned by the borough's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations 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 Darby Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

December 30, 2019

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

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 Darby Borough 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Darby Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 712 A, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1957. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 13 active members, no terminated members eligible for vested benefits in the future, and 17 retirees receiving pension benefits.

## **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	Eligible with 20 years of service.
Vesting	100% vesting is available after 12 years of service.

### Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$100 per month upon completion of 26 or more years of service.

### 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.
Killed in Service	Benefit is 100% of the officer's final salary.

### Service Related Disability Benefit:

Benefit equals 70% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.



DARBY BOROUGH POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Audit Recommendation

Darby Borough has partially complied with the prior audit recommendation concerning the following:

- Failure To Timely And Fully Pay The Minimum Municipal Obligation Of The Plan

The borough paid the outstanding 2013 and 2014 MMOs due to its pension plan, along with required interest on the deficient MMOs as required by Act 205. However, a similar condition occurred during the current audit period and the municipality again failed to fully pay the MMOs of the pension plan as further discussed in Finding No. 1 contained in this report.

Noncompliance With Prior Audit Recommendations

Darby Borough has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefit Not Authorized By Act 600;
- Nonservice-Related Disability Pension Benefit Not Authorized By Act 600 Or The Plan's Governing Document;
- Unauthorized Provision For A Killed In Service Benefit; and
- Untimely Deposit Of State Aid.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Failure To  
Timely And Fully Pay The Minimum Municipal Obligation Of The Plan**

Condition: As disclosed in the Status of Prior Findings section of this report, the borough partially complied with the prior recommendation by depositing the outstanding 2013 and 2014 MMOs due to its pension plan, along with interest due on the outstanding amounts, in accordance with Act 205. However, a similar condition occurred during the current audit period. The borough again failed to fully pay the 2016, 2017 and 2018 MMOs leaving unpaid MMO balances, including calculated interest, amounting to \$561,736, \$682,005 and \$507,910, respectively, for its pension plan. Consequently, the municipality has a total outstanding MMO obligation of \$1,751,651 due to its police pension plan pursuant to Act 205.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

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

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: Municipal officials did not comply with the Act 205 requirements because the borough did not have sufficient resources available to fully pay the MMOs by their respective due dates.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Effect: The failure to fully pay the MMOs could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2016, 2017 and 2018 MMOs by the December 31 deadlines for each year, the municipality must add the outstanding balances to the current year's MMO and include interest, as required by Act 205.

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the municipality pay the outstanding obligations due to the police pension plan for the years 2016, 2017 and 2018, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure that future MMOs are fully paid in accordance with Act 205 requirements.

Management's Response: Municipal officials agreed with the finding without exception. Municipal officials stated that there is a high delinquency rate of tax accounts that contributed to the shortfall in funds available to pay the unpaid MMOs. Municipal officials will consult with their actuary and pension plan consultant to discuss their options regarding the outstanding unpaid MMO.

Auditor's Conclusion: While we acknowledge the municipality's efforts to comply with the finding recommendation, the Department will continue to monitor the municipality's compliance with the finding recommendation subsequent to the release of the audit report to ensure the ongoing funding obligations of the plan are being met.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600**

Condition: As disclosed in the prior audit report, the plan’s governing document provides a pension benefit not authorized by Act 600. Section 1.03 of Ordinance No. 712A states, in part:

For purposes of computing average applicable compensation, actual monthly earnings shall be based on W-2 earnings in which all forms of earnings are derived from the terms and condition of the employee’s employment.

The borough has interpreted this provision to authorize the inclusion of lump-sum payments for leave earned outside the pension computation period. This interpretation affected the calculations of monthly pension benefits for three police officers who retired during prior audit periods, and one police officer who entered the DROP during the current audit period. This interpretation also affected the calculation of monthly pension benefits for the police officer who vested during the current audit period.

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

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

Although Act 600 does not define “salary,” the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum payments for leave that was not earned during the pension computation period.

Cause: Municipal officials were unable to achieve compliance with the prior audit recommendation through the collective bargaining process.

Effect: The plan is paying pension benefits to four retirees in excess of those authorized by Act 600.

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 borough 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.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

**Recommendation:** We again recommend that the borough comply with Act 600 at its earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing 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. In such case, the plan’s actuary may be required to determine the impact, if any, of the excess benefits on the borough’s future state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the borough’s future state aid allocations after the submission of this information, the plan’s actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

**Management’s Response:** Although municipal officials agreed with the finding without exception, officials indicated that they were unable to negotiate this benefit out of the police contract in the past but will again try to do so the next time negotiations commence.

**Auditor’s Conclusion:** Considering the plan’s funded status and the liability for delinquent employer contributions owed by the municipality, we again urge borough officials to comply with the finding recommendation at their earliest opportunity to do so. Compliance will be evaluated during our next audit of the plan.

**Finding No. 3 – Noncompliance With Prior Audit Recommendation – Nonservice-Related Disability Pension Benefit Not Authorized By Act 600 Or The Plan’s Governing Document**

**Condition:** As disclosed in the prior audit report, the collective bargaining agreement between the borough and its police officers contains a provision for the payment of a nonservice-related disability benefit which is not authorized by Act 600, the plan’s governing document or contained in the plan’s actuarial valuation report dated January 1, 2017, filed with the former Public Employee Retirement Commission. Pursuant to this unauthorized benefit provision, the borough granted a nonservice-related disability pension benefit to two former police officers who retired during 2009 and 2011, respectively. Although, there were no additional police officers who retired under this unauthorized provision during the current audit, the provision remains and is not in compliance with Act 600.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Criteria: Regarding disability benefits, Section 5(e)(1) of Act 600 states:

In the case of the payment of pensions for permanent injuries incurred in service, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township or regional police department and shall be calculated at a rate no less than fifty per centum of the member's salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et. seq.) shall have his disability benefits offset or reduced by the amount of such benefits. [Emphasis added]

Furthermore, the Supreme Court of Pennsylvania in *Chirico v. Board of Supervisors for Newtown Township*, 518 Pa. 572, 544A.2d 1313 (1988) held that Act 600 does not provide for the payment of pension benefits for non-service related injuries.

Cause: Municipal officials were unable to achieve compliance with the prior audit recommendation through the collective bargaining process.

Effect: 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 borough 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: We again recommend that the borough comply with Act 600 at its earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay nonservice-related disability benefits, 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. In such case, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the borough's future state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the borough's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Management's Response: Although municipal officials agreed with the finding without exception, officials indicated that they were unable to negotiate this benefit out of the police contract in the past but will again try to do so the next time negotiations commence.

Auditor's Conclusion: Considering the plan's funded status and the liability for delinquent employer contributions owed by the municipality, we again urge borough officials to comply with the finding recommendation at their earliest opportunity to do so. Compliance will be evaluated during our next audit of the plan.

**Finding No. 4 – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit**

Condition: As disclosed in the prior audit report, Darby Borough maintains a police pension plan governed by the provisions of Act 600, as amended. Prior to the adoption of Act 51 of 2009, Act 600 contained a mandatory killed in service benefit provision; however, Act 51 specifically repealed the section of Act 600 that referenced the mandatory killed in service benefit. During the prior audit period, a verbal observation was given to plan officials notifying them of the passage of Act 51. It was recommended that plan officials review the act's implications for the police pension plan with their municipal solicitor. During the current audit period, we determined that the pension plan's governing document continues to provide for a killed in service benefit that is no longer authorized by Act 600.

Section 5.03 of Ordinance No. 712A states, in part:

In the event a MEMBER is killed in service, the MEMBER'S family shall receive a pension calculated at one hundred percent (100%) of the MEMBER's salary at the time of death.

Criteria: Section 1(a) of Act 51 of 2009 states, in part:

In the event a law enforcement officer, ambulance service or rescue squad member, firefighter, certified hazardous material response team member or National Guard member dies as a result of the performance of his duties, such political subdivision, Commonwealth agency or, in the case of National Guard members, the Adjutant General, or, in the case of a member of a Commonwealth law enforcement agency, the authorized survivor or the agency head, within 90 days from the date of death, shall submit certification of such death to the Commonwealth.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

In addition, Section 1(d) of Act 51 of 2009 states, in part:

. . . the Commonwealth shall, from moneys payable out of the General Fund, pay to the surviving spouse or, if there is no surviving spouse, to the minor children of the paid firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty the sum of \$100,000, adjusted in accordance with subsection (f) of this section, and an amount equal to the monthly salary, adjusted in accordance with subsection (f) of this section, of the deceased paid firefighter, ambulance service or rescue squad member or law enforcement officer, less any workers' compensation or pension or retirement benefits paid to such survivors, and shall continue such monthly payments until there is no eligible beneficiary to receive them. For the purpose of this subsection, the term "eligible beneficiary" means the surviving spouse or the child or children under the age of eighteen years or, if attending college, under the age of twenty-three years, of the firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty. When no spouse or minor children survive, a single sum of \$100,000, adjusted in accordance with subsection (f) of this section, shall be paid to the parent or parents of such firefighter, ambulance service member, rescue squad member or law enforcement officer. (Emphasis added)

Furthermore, Section 2 of Act 51 of 2009 states:

Repeals are as follows:

- (1) The General Assembly declares that the repeals under paragraph (2) are necessary to effectuate the amendment of section 1 of the act.
- (2) The following parts of acts are repealed:
  - (i) Section 5(e)(2) of the act of May 29, 1956 (1955 P.L.1804, No. 600), referred to as the Municipal Police Pension Law.
  - (ii) Section 202(b)(3)(vi) and (4)(vi) of the act of December 18, 1984 (P.L.1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act.

Therefore, since Act 51 specifically repealed the killed in service provision of Act 600 and the funding provisions for the killed in service benefit that were contained in Act 205, the provision of a killed in service benefit is no longer authorized.



DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – (Continued)**

Cause: Municipal officials were unable to achieve compliance with the prior audit recommendation through the collective bargaining process.

Effect: Since Section 1 of Act 51 provides that the Commonwealth is obligated to pay the killed in service benefit less any pension or retirement benefits paid to eligible survivors, the continued provision of a killed in service benefit could result in the pension plan being obligated to pay a benefit that is no longer authorized by Act 600 and would have been paid entirely by the Commonwealth absent such provision.

Recommendation: We again recommend that the municipality eliminate this unauthorized benefit provision at its earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding without exception and indicated they will work to negotiate this out of the next police contract.

Auditor's Conclusion: Considering the plan's funded status and the liability for delinquent employer contributions owed by the municipality, we again urge borough officials to comply with the finding recommendation at their earliest opportunity to do so, especially in light of the fact that the Commonwealth has assumed the responsibility of paying the mandated killed in service benefit and the elimination of this benefit would improve the funding status of the plan going forward. Compliance will be evaluated during our next audit of the plan.

**Finding No. 5 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid**

Condition: As disclosed in the prior audit report, the municipality failed to deposit its prior state aid allocations into the pension plan within 30 days of receipt in accordance with Act 205. A similar condition occurred during the current audit period. The state aid for 2017, received on September 27, 2017, was not deposited into the pension plan until November 15, 2017, and the state aid for 2018, received on September 20, 2018, was not deposited until November 2, 2018 which is not in compliance with Act 205. Similarly, subsequent to the current audit period, the state aid for 2019, received on September 18, 2019, was not deposited into the pension plan until November 8, 2019.

DARBY BOROUGH POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 5 – (Continued)**

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 respective pension plan.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure that the state aid allocations were deposited timely in accordance with Act 205 requirements.

Effect: Although the state aid was eventually deposited into the plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We again recommend that the municipality deposit the interest earned during the period beyond the 30 day grace period allowed by Act 205 into the pension plan. A copy of the interest calculation must be maintained by the borough for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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

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

DARBY BOROUGH POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 1 contained in this audit report may lead to a total withholding of state aid in the future unless the finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

DARBY BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on pages 14 through 17 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 249,692	\$ 271,159
Interest	760,277	825,562
Difference between expected and actual experience	-	112,302
Changes of assumptions	-	224,661
Benefit payments, including refunds of member contributions	<u>(539,550)</u>	<u>(565,108)</u>
Net Change in Total Pension Liability	470,419	868,576
Total Pension Liability – Beginning	9,523,541	9,993,960
Total Pension Liability – Ending (a)	<u>\$ 9,993,960</u>	<u>\$ 10,862,536</u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 554,298	\$ 445,361
Contributions – State Aid	154,907	141,150
Contributions – Member	78,975	73,223
Net investment income	467,318	69,603
Benefit payments, including refunds of member contributions	<u>(539,550)</u>	<u>(565,108)</u>
Administrative expense	<u>(5,100)</u>	<u>(9,600)</u>
Net Change in Plan Fiduciary Net Position	710,848	154,629
Plan Fiduciary Net Position – Beginning	5,988,160	6,699,008
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,699,008</u>	<u>\$ 6,853,637</u>
Net Pension Liability – Ending (a-b)	<u>\$ 3,294,952</u>	<u>\$ 4,008,899</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	67.0%	63.1%
Estimated Covered Employee Payroll	\$ 1,483,880	\$ 1,665,920
Net Pension Liability as a Percentage of Covered Employee Payroll	222.0%	240.6%

DARBY BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017, AND 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 284,717	\$ 278,336	\$ 292,253
Interest	868,784	863,856	909,205
Difference between expected and actual experience	-	(670,123)	-
Changes of assumptions	-	30,534	-
Benefit payments, including refunds of member contributions	<u>(574,897)</u>	<u>(563,362)</u>	<u>(615,137)</u>
Net Change in Total Pension Liability	578,604	(60,759)	586,321
Total Pension Liability – Beginning	<u>10,862,536</u>	<u>11,441,140</u>	<u>11,380,381</u>
Total Pension Liability – Ending (a)	<u>\$ 11,441,140</u>	<u>\$ 11,380,381</u>	<u>\$ 11,966,702</u>
 Plan Fiduciary Net Position			
Contributions – Employer	\$ 449,430	\$ 581,474	\$ 468,984
Contributions – State Aid	107,575	90,044	97,297
Contributions – Member	71,938	93,541	66,757
Net investment income	553,573	1,148,786	(309,305)
Benefit payments, including refunds of member contributions	<u>(574,897)</u>	<u>(563,362)</u>	<u>(615,137)</u>
Administrative expense	<u>(6,400)</u>	<u>(12,000)</u>	<u>(6,400)</u>
Net Change in Plan Fiduciary Net Position	601,219	1,338,483	(297,804)
Plan Fiduciary Net Position – Beginning	<u>6,853,637</u>	<u>7,454,856</u>	<u>8,793,339</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 7,454,856</u>	<u>\$ 8,793,339</u>	<u>\$ 8,495,535</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 3,986,284</u>	<u>\$ 2,587,042</u>	<u>\$ 3,471,167</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.2%	77.3%	71.0%
 Estimated Covered Employee Payroll	\$ 1,467,450	\$ 1,393,084	\$ 1,565,112
 Net Pension Liability as a Percentage of Covered Employee Payroll	271.6%	185.7%	221.8%

DARBY BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the borough as of December 31, 2015, 2016, 2017 and 2018, calculated using the discount rate of 8.0%, as well as what the borough's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/15	\$ 5,223,137	\$ 4,008,899	\$ 2,979,188
Net Pension Liability – 12/31/16	\$ 5,249,649	\$ 3,986,284	\$ 2,914,161
Net Pension Liability – 12/31/17	\$ 3,832,056	\$ 2,587,042	\$ 1,527,847
Net Pension Liability – 12/31/18	\$ 4,763,078	\$ 3,471,167	\$ 2,371,285

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
2014	\$ 709,205	\$ 709,205	\$ -	\$1,483,880	47.79%
2015	586,511	571,293	15,218	1,665,920	34.29%
2016	557,005	-	557,005	1,467,450	0.00%
2017	671,518	-	671,518	1,393,084	0.00%
2018	566,281	58,371	507,910	1,565,112	3.73%

\* *The individual annual deficiencies disclosed above were provided by the plan's custodian and do not agree with individual annual amounts disclosed in Finding No. 1 contained on page 4 of this report. However, the contribution deficiencies agree in total (\$1,751,651) and include accumulated interest.*

DARBY BOROUGH POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(6.42%)
2017	16.33%
2016	7.75%
2015	(1.06%)
2014	7.28%

DARBY BOROUGH 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	\$ 6,080,471	\$ 9,073,653	\$ 2,993,182	67.0%
01-01-15	7,358,180	10,330,923	2,972,743	71.2%
01-01-17	8,567,856	10,801,551	2,233,695	79.3%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses at 120 percent of market value. 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.



DARBY BOROUGH 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.

DARBY BOROUGH 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	8 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% compounded annually

DARBY BOROUGH POLICE PENSION PLAN  
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