

LIMITED PROCEDURES ENGAGEMENT

Eastern Adams Regional Police Pension Plan Adams County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

March 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Eastern Adams Regional Police Commission
Adams County
New Oxford, PA 17350

We conducted a Limited Procedures Engagement (LPE) of the Eastern Adams Regional Police Pension Plan for the period January 1, 2013 to December 31, 2016 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the findings contained in our prior audit report by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period.
- 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.

- Whether retirement benefits calculated for plan members who retired during the engagement 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Eastern Adams Regional Police Pension Plan was not being 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 – Noncompliance With Prior Audit Recommendation - Pension Benefit Not In Compliance With Act 600 Provisions

Finding No. 2 – Failure To Pay The Minimum Municipal Obligation Of The Plan

Finding No. 1 contained in this LPE report repeats a condition that was cited in our previous audit report that has not been corrected by regional police commission officials. We are concerned by the regional police commission's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendations noted in this report.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The regional police should continue to maintain documentation related to this pension plan.

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 the Eastern Adams Regional Police Commission and, where appropriate, their responses have been included in this report. We would like to thank regional police commission officials for the cooperation extended to us during the conduct of this LPE.

February 26, 2018

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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EASTERN ADAMS REGIONAL POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

The Eastern Adams Regional Police Commission has complied with the prior audit recommendation concerning the following:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Plan officials accurately reported the required pension data on the Certification Form AG 385 during the engagement period.

Noncompliance With Prior Audit Recommendation

The Eastern Adams Regional Police Commission has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefit Not In Compliance With Act 600 Provisions

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions

Condition: As disclosed in the prior audit report, the pension plan’s governing document, a joint ordinance and agreement for the police pension fund enacted December 14, 1993, contains benefit provisions that are not in compliance with Act 600.

Furthermore, on April 17, 2002, Act 600 was amended by Act 30, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600. Regional police commission officials have not amended the police pension plan’s benefit structure to adopt all the changes mandated by Act 30. The specific inconsistencies are as follows:

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Act 600 (as amended)</u> |
|--------------------------------------|---------------------------|--|
| Intervening military service credit | Not provided | Any member of the police force employed by a borough, town, township or regional police department, who has been a regularly appointed employee of any such political subdivision or regional police department for a period of at least six months and who thereafter shall enter into the military service of the United States, shall have credited to his employment record for pension or retirement benefits all of the time spent by him in such military service, if such member returns to his employment within six months after his separation from the service. |
| Pre-vesting death benefit (survivor) | Not provided | 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. |

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

| Benefit Provision | Governing Document | Act 600 (as amended) |
|--------------------|--|--|
| Vesting benefit | The deferred pension shall be determined as a percentage of the participant’s average monthly salary for the 36 month period preceding termination of employment where such percentage is equal to the lesser of (a) 2.5% multiplied by each full year of continuous service; or (b) 50%. | ...the benefit is determined by applying the percentage the member’s years of service bears to the years of service the member would have rendered by his superannuation retirement date to the gross pension... |
| Service increments | The monthly retirement benefits to which each eligible participant shall be entitled under this plan may be increased above that amount set forth in subsection (7) of this section if said participant, upon having accrued enough years of full-time service as a police officer for the EARP ... continues as a full-time police officer of the EARP beyond 20 years in the case of Tier I participants and 25 years in the case of Tier II participants. The increase in the percentage of the average monthly salary defined benefits shall be equal to 1% per year following 20 years of full time employment as a police officer of the EARP for Tier I participants and 25 years of full-time employment as a police officer of the EARP for Tier II participants. In no event, however, shall the percentage of the average monthly salary which he or she shall have earned during the 36 month period last served by the participant immediately prior to retirement and upon which benefits are therefore defined exceed 60%. Nor shall the maximum increase exceed \$500 per month. | Any borough, town, township or regional police department may establish and pay length of service increments for years of service beyond 25 years for each completed year of service in excess of 25 years, not to exceed \$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. Such length of service increments may be paid in addition to other monthly pension or retirement allowances. |

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

Cause: Plan officials failed to adopt adequate internal control procedures to ensure compliance with this Department's prior audit recommendation.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

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

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

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

Finding No. 2 – Failure To Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not pay the minimum municipal obligation (MMO) of the police pension plan for the years 2014 and 2016 as required by Act 205. The regional had an unpaid MMO of \$48,961 for the year 2014 and an unpaid MMO of \$3,425 for the year 2016.

In addition, plan officials did not deposit the regional's 2014 state aid allocation into the pension plan. The regional received its 2014 state aid allocation in the amount of \$1,506 on September 24, 2014, but, as of the date of this report, the entire allocation remains in the general fund.

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.

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

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.

Regarding the deposit of state aid, 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 funds or alternate funding mechanisms applicable to the respective pension plans.

Cause: Plan officials did not comply with the Act 205 requirements because there was a recent turnover of plan officials.

Effect: The failure to pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members. In addition, when state aid is not deposited into a pension plan account, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Due to the regional's failure to pay the 2014 and 2016 MMO by the respective December 31, 2014 and December 31, 2016, deadlines, the regional must add the 2014 and 2016 MMOs to the current year's MMO and include interest, as required by Act 205.

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

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the regional pay the MMO due to the police pension plan for the year 2014 and 2016, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be submitted to the Department along with evidence of payment of the MMOs. The 2014 state aid allocation should be utilized towards payment of the 2014 MMO.

Furthermore, we recommend that, in the future, plan officials pay the full MMO due the plan.

We also recommend that plan officials develop and implement procedures to ensure that future state aid is deposited into the pension plan within 30 days of receipt by the treasurer.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the regional police commission's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the plan.

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by Finding No. 2 contained in this report may lead to a total withholding of state aid in the future unless that 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.

EASTERN ADAMS 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, 2011, 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) |
| 01-01-11 | \$ 1,013,505 | \$ 1,070,540 | \$ 57,035 | 94.7% |
| 01-01-13 | 1,258,086 | 867,362 | (390,724) | 145.0% |
| 01-01-15 | 1,519,313 | 943,708 | (575,605) | 161.0% |

Note: The market value of the plan's assets at 01-01-13 and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses limited to a maximum of 120% and a minimum of 80% of fair 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.

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2011 | \$ 100,121 | 100.0% |
| 2012 | 91,995 | 100.0% |
| 2013 | 77,346 | 100.0% |
| 2014 | 48,961 | 0.0%* |
| 2015 | 6,164 | 101.9% |
| 2016 | 3,425 | 0.0%* |

*See Finding No. 2 contained in the Findings and Recommendations section of this report.

EASTERN ADAMS 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, 2015 |
| Actuarial cost method | Entry age normal |
| Amortization method | N/A |
| Remaining amortization period | N/A |
| Asset valuation method | The actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of fair market value of assets. |
| Actuarial assumptions: | |
| Investment rate of return | 7.0% |
| Projected salary increases | 4.0% |
| Cost-of-living adjustments | None assumed |

EASTERN ADAMS REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Harry McKean
President, Regional Police Commission

Ms. Vita Iocco
Chief Administrative Officer

Ms. Dorothy Robinson
Regional Police Commission

Mr. Mario Iocco
Regional Police Commission

Mr. Jim Lafferty
Regional Police Commission

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