

# LIMITED PROCEDURES ENGAGEMENT

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## Eastern Pike Regional Police Pension Plan Pike County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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July 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Eastern Pike Regional Police Commission  
Pike County  
Matamoras, PA 18336

We conducted a Limited Procedures Engagement (LPE) of the Eastern Pike Regional Police Pension Plan for the period January 1, 2014 to December 31, 2017 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Eastern Pike 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 – Failure To Adopt Benefit Provisions Mandated By Act 30
- Finding No. 2 – Failure To Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 3 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan
- Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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

July 16, 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 PIKE REGIONAL POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

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

- Unauthorized Provision For A Killed In Service Benefit

The commission adopted Resolution No. 3-2014 eliminating the provision for a killed in service benefit.

Noncompliance With Prior Audit Recommendation

The Eastern Pike Regional Police Commission has not complied with the prior audit recommendation concerning the following:

- Failure To Adopt Benefit Provisions Mandated By Act 30

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

**Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Adopt Benefit Provisions Mandated By Act 30**

Condition: 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. As disclosed in the two prior audit reports, commission 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>Act 600 (as amended)</u>
Service-related disability benefit	A benefit equal to 50% of the participant’s average monthly compensation, based on the last 36 months of compensation, reduced by Federal Social Security and/or Worker’s Compensation programs.	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.
Pre-vesting death benefit	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.
Definition of “attending college”	Not provided	“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.

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Criteria: The police pension plan’s benefit structure should be in compliance with Act 600, as amended by Act 30.

Cause: Commission officials have failed to adopt adequate internal control procedures to ensure compliance with the 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 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 by Act 30, at their earliest opportunity to do so.

Management’s Response: Commission officials agreed with the finding without exception. Commission members adopted a Second Amendment to the Eastern Pike Regional Police Pension Plan on June 11, 2018 which adopted the mandatory provisions of Act 30.

Auditor’s Conclusion: Based on the management response, it appears commission officials have complied with the finding recommendation. Compliance will be evaluated during our next engagement.

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

Condition: The commission did not fully pay the minimum municipal obligation (MMO) that was due to the police pension plan for the year 2017, as required by Act 205. The commission had an unpaid MMO balance of \$17,105 for the year 2017.

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.



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FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

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

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

Cause: Plan officials relied on a reconciliation prepared by the plan’s actuary which indicated an incorrect balance due on the 2017 MMO after state aid was applied.

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

Due to the commission’s failure to fully pay the 2017 MMO by the December 31, 2017, deadline, the commission must add the 2017 MMO balance to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO due to the police pension plan for the year 2017, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the commission for examination during our next engagement.

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

Auditor’s Conclusion: Compliance will be evaluated during our next engagement.

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure To Deposit The Full Amount Of State Aid Into The Pension Plan**

Condition: The commission did not deposit the full amount of its 2015 state aid allocation into the pension plan. The commission received its 2015 state aid allocation in the amount of \$46,996 on September 30, 2015, but, as of the date of this report, only state aid totaling \$45,096 was deposited into the pension plan.

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 pension plan.

Cause: The full amount of the 2015 state aid allocation was not deposited into the pension plan because plan officials were unaware of applicable Act 205 provisions.

Effect: 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.

Recommendation: We recommend that the commission deposit the plan’s remaining state aid allocation of \$1,900, plus interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually, into the pension plan. A copy of the interest calculation must be maintained by the commission for examination during our next engagement.

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

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

Auditor’s Conclusion: Compliance will be evaluated during our next engagement.

EASTERN PIKE REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 4 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid**

Condition: The commission understated payroll by \$23,400 on the Certification Form AG 385 filed in 2015. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the commission for distribution to its pension plans. Because the commission’s state aid allocation was based on pension costs, the commission received an underpayment of state aid of \$3,098 as identified below:

<u>Year</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2015	13.241%	\$ 23,400	\$ 3,098

Although the commission will be reimbursed for the underpayment of state aid due to the commission’s certification error, the full amount of the 2015 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Auditor’s Conclusion: Compliance will be evaluated during our next engagement.

EASTERN PIKE 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, 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	\$ 1,045,933	\$ 964,225	\$ (81,708)	108.5%
01-01-15	1,393,556	1,026,575	(366,981)	135.7%
01-01-17	1,381,823	1,473,941	92,118	93.8%

Note: The change in the unfunded actuarial accrued liability from the 1-1-15 valuation to the 1-1-17 valuation was the result of COLA increases, fund yield losses, compensation increases and new plan entrants.

EASTERN PIKE 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 PIKE 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
2012	\$ 33,575	107.1%
2013	34,448	110.3%
2014	43,667	100.0%
2015	45,096	100.0%
2016	27,701	112.0%
2017	55,719	69.3%*

\*See Finding No. 2

EASTERN PIKE 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	4.0%
Cost-of-living adjustments	2.0%

EASTERN PIKE 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. Kevin Salvaiti**  
Chairman, Board of Commissioners

**Ms. Barbara Gillette**  
Secretary/Treasurer

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