

COMPLIANCE AUDIT

Falls Township Police Pension Plan Bucks County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

March 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Falls Township
Bucks County
Fairless Hills, PA 19030

We have conducted a compliance audit of the Falls Township Police Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our 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 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 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 plan members who retired and the 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 and disbursed in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid or payable to the recipients.
- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, respectively, in accordance with Act 205 and whether selected information provided on these reports is accurate, complete, and in accordance with plan provisions to ensure compliance for participation in the state aid program by comparing selected information to supporting source documentation.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Falls Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Falls Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the Falls 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 findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation – Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits
- Finding No. 3 – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit
- Finding No. 4 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600
- Finding No. 5 – Pension Benefits In Excess Of Act 600

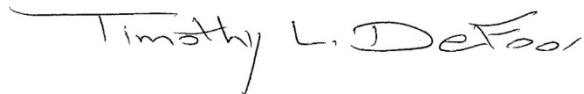
Finding Nos. 1, 2, 3, and 4 contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by township officials. We are concerned by the township’s failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

As previously noted, one of the objectives of our audit of the Falls Township Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

| <u>Level</u> | <u>Indication</u> | <u>Funding Criteria</u> |
|--------------|-------------------|-------------------------|
| I | Minimal distress | 70-89% |
| II | Moderate distress | 50-69% |
| III | Severe distress | Less than 50% |

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. However, **we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 65.5% as of January 1, 2021**, which is the most recent data available. **Based on this information, the Municipal Pension Reporting Program issued a notification that the township is currently in Level II moderate distress status.** We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Falls 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.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
February 23, 2023

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BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Falls Township Police Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Falls Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2001-16, 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 January 1, 1969. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2021, the plan had 44 active members, 1 terminated member eligible for vested benefits in the future, and 67 retirees receiving pension benefits from the plan.

FALLS TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Audit Recommendations

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

- Pension Benefits Not In Compliance With Act 600 Provisions
- Inconsistent Pension Benefits
- Unauthorized Provision For A Killed In Service Benefit
- Pension Benefit Not Authorized By Act 600

FALLS TOWNSHIP 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 four audit reports, the pension plan’s governing document, Ordinance No. 2001-16, as amended, contains benefit provisions that are not in compliance with Act 600. Although Act 600 was amended by Act 30 on April 17, 2002, which made significant changes to the statutorily prescribed benefit structure of police pension plans subject to Act 600, municipal officials again failed to amend the police pension plan’s benefit structure to adopt all of the changes mandated by Act 600, as amended, as follows:

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Act 600 (as amended)</u> |
|--|--|---|
| Cost of living provision for survivors | The cost of living allowance shall also apply to a retiree’s beneficiary. | Not authorized |
| Survivor’s benefit | The spouse shall be entitled to receive a monthly annuity in the amount of 50% of the benefit the member would have been eligible to receive at the time of his death. This annuity shall continue until the spouse’s death or remarriage after April 17, 2002 only. In the event of the death of a member without a spouse, minor children receive their pro rata portion of 50% of the member’s pension until their 18 th birthday. | 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). |

Criteria: As previously cited in prior audit reports, 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: Municipal officials again failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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 municipal 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 and provided the following response:

The Police Pension Plan’s governing document (Ord. 2001-16) shall be amended to remove the Cost-of-Living provision for survivors and revise the language regarding Survivor’s benefits as mandated by Act 600.

Auditor’s Conclusion: It appears that municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Inconsistent Pension Benefits

Condition: As disclosed in the prior two audit reports, the pension plan’s governing document, Ordinance No. 2001-16, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the township, as follows:

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Collective Bargaining Agreement</u> |
|--------------------------|---------------------------|---|
| Service Increment | Not granted | Employees eligible for retirement benefits under Chapter 72 of the Township Code will be entitled to length of service increments pursuant to Act 600, for each completed year of service in excess of 25 years. The increments will be equal to \$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. |

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Collective Bargaining Agreement</u> |
|------------------------------------|---|--|
| Service Related Disability Benefit | Any member who incurs a service related disability shall receive the equivalent of one-half (1/2) his monthly base salary based upon the average of his monthly pay for the preceding thirty-six (36) month period. | The parties agree to amend Section 72-5 of the Pension Ordinance to provide for the greater of one-half (1/2) the officer's salary (as defined as salary plus longevity) at the time the disability was incurred, reduced by the amount of Social Security Disability benefits received for the same injury, or one-half (1/2) the officer's monthly base salary (as defined in Section 72-2). |

In addition, the last several actuarial valuation reports for the police pension plan, including those submitted during the current audit period to the Municipal Pension Reporting Program with valuation dates of January 1, 2019 and January 1, 2021, reported the provisions contained in the collective bargaining agreement.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits.

Cause: Municipal officials again failed to update the plan's governing document to include all of the provisions contained in the collective bargaining agreement and ensure 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.

Recommendation: We again recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

Management Response: Municipal officials agreed with the finding and provided the following response:

The Police Pension Plan's governing document shall be amended to add/change the language contained in the Collective Bargaining Agreement regarding Service Increments and Service-Related Disability Benefits to eliminate inconsistencies between these plan documents.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Auditor's Conclusion: It appears that municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Finding No. 3 – Noncompliance With Prior Audit Recommendation – Unauthorized Provision For A Killed In Service Benefit

Condition: Falls Township 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. The prior two audit reports disclosed that the pension plan's governing document and the collective bargaining agreement provide for a killed in service benefit that is no longer authorized by Act 600. During the current audit period, it was determined that the pension plan's governing document and the collective bargaining agreement for the period January 1, 2018 to December 31, 2022 continue to provide for a killed in service benefit that is no longer authorized by Act 600.

Section 72-9 of Ordinance No. 2005-05 states:

Pensions for the families of members killed in service shall be calculated at one hundred per centum of the member's salary at the time of death.

The collective bargaining agreement effective January 1, 2018 through December 31, 2022 states:

In the event an officer dies in the line of duty, and is survived by a spouse, the spouse shall be entitled to receive a monthly annuity in the amount of one hundred percent (100%) of the officer's salary at the time of the officer's 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.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (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.

Cause: Plan officials again failed to establish adequate internal control procedures to ensure the plan's governing document is in compliance with Act 600, as amended, and ensure compliance with the prior audit recommendation.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

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 review the plan's killed in service benefit with its solicitor in conjunction with Act 51 of 2009 and eliminate this unauthorized benefit provision at its earliest opportunity to do so.

Management's Response: Municipal officials agreed with the finding and provided the following response:

The Police Pension Plan's governing document and Collective Bargaining Agreement will be amended to remove the killed in service benefit that is no longer authorized by Act 600. We acknowledge that Act 51 of 2009 specifically repealed the section of Act 600 that referenced the mandatory killed in service benefit.

Auditor's Conclusion: It appears that municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Finding No. 4 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600

Condition: As disclosed in the prior audit report, the pension plan's governing document grants a benefit that is not authorized by Act 600. Section 72-2 of Ordinance No. 2001-16 states, in part:

BASE SALARY: An officer's base salary shall be calculated as his average gross monthly salary for the thirty-six (36) month period prior to his retirement. This average gross monthly salary includes all regular time, overtime, Court time, compensatory time, longevity accruals, educational incentive, and any other amounts of monies that are reportable as gross income according to the IRS Code.

The township has interpreted this provision to authorize the inclusion of lump-sum payments for leave earned outside the pension computation period. During the prior audit period, the township included vacation hours earned outside the computation period in the calculation of the monthly pension benefit for a police officer who retired on August 31, 2015 and entered the township's DROP program.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

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: Plan officials believed that their methodology for calculating pension benefits was authorized by Act 600. Plan officials have failed to adopt adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by Act 600. As of the date of this report, the retiree is receiving excess benefits amounting to \$99 per month, which totaled approximately \$8,910 from the date of the member’s retirement through the date of this audit report.

Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the township received state aid based on unit value for this pension plan 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 township comply with Act 600 at its earliest opportunity to do so. To the extent that the township is not in compliance with Act 600 and 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 township’s future state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the township’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.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Management's Response: Municipal officials agreed with the finding and provided the following response:

The Police Pension Plan's governing document shall be revised to clarify the definition of Base Salary so that the term does not encompass lump-sum payments for leave that was not earned during the pension computation period of thirty-six (36) months prior to retirement.

Auditor's Conclusion: It appears that municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

Finding No. 5 – Pension Benefits In Excess Of Act 600

Condition: The township provided benefits to a police officer in excess of Act 600. During the current audit period, a police officer who had 22 years of service with the township purchased three years of past credited service time from employment in another law enforcement agency. This officer was credited with 25 years of service and entered the township's Deferred Retirement Option Plan (DROP). The pension plan's governing document, Ordinance No. 2001-16, authorized the purchase of prior service credit (*for police officers hired prior to April 10, 1998 only*) that is not authorized by Act 600. Section 72-11 of Ordinance No. 2001-16 states, in part:

Any police officer who was employed as a full, active duty officer in a law enforcement agency recognized by the Pension Board, shall be given the opportunity to receive full credit for each year of law enforcement service, or fraction thereof, not to exceed five (5) years. This law enforcement service credit may be purchased by the employee to count towards years of municipal service in the formula for determining eligibility for retirement. This will not apply to any officers hired after the 10th of April, 1998. Any officer hired before the 10th of April, 1998 who qualifies for this benefit and desires to possibly one day utilize this benefit shall be required to submit a letter of intent to the Township Manager. This letter shall be submitted on or before the 31st of July, 1998.

We note that there were seven police officers who met the criteria for this benefit and submitted the required letters of intent in accordance with the ordinance. Five of these officers subsequently retired and/or entered the DROP without taking advantage of this provision and one of the officers remains an active employee. The officer cited above is the first to purchase prior service credit under the provision. Act 600 does not provide for such purchase of prior service credit with another law enforcement agency and, as such, the officer would not yet have been eligible for normal retirement or entrance into the DROP program according to Act 600.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Criteria: Section 3 of Act 600, states, in part:

Each ordinance or resolution establishing a police pension fund shall prescribe a minimum period of total service in the aggregate of twenty-five years in the same borough, town, township or regional police department.

The police pension plan's benefit structure should be in compliance with Act 600.

Cause: The benefit granted was previously collectively bargained and adopted into the plan's governing document until successfully eliminated for individuals hired after April 10, 1998.

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 township received state aid based on unit value for this pension plan during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: To the extent that the township 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 township's future state aid allocations and submit this information to the Department. If it is determined the excess benefits had an impact on the township'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: Municipal officials agreed with the finding and provided the following response:

The Police Pension Plan's governing document (Ord. 2001-16) shall be amended to remove the Law Enforcement Service Credit provision as it is not authorized by Act 600.

FALLS TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Auditor's Conclusion: The township has already effectively eliminated this unauthorized benefit for all police officers hired after April 1998; therefore, we encourage township officials to consult with their solicitor prior to taking any action to amend the governing document. We merely recommend that to the extent the township is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, we encourage the township to follow the recommendation above. Compliance will be evaluated during our next audit of the plan.

FALLS 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, 2017, is as follows:

| | (1) | (2) | (3) | (4) |
|--------------------------------|--|--|--|----------------------------|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a) | Funded Ratio (a)/(b) |
| 01-01-17 | \$ 28,259,727 | \$45,244,751 | \$ 16,985,024 | 62.5% |
| 01-01-19 | 32,503,548 | 48,396,288 | 15,892,740 | 67.2% |
| 01-01-21 | 37,868,493 | 57,847,254 | 19,978,761 | 65.5% |

Note: The market values of the plan’s assets at 01-01-17, 01-01-19, and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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.

FALLS 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.

FALLS TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

| <u>Year Ended December 31</u> | <u>Actuarially Determined Contribution</u> | <u>Actual Contributions</u> | <u>Contribution Deficiency (Excess)</u> | <u>Covered- Employee Payroll</u> | <u>Contributions as a Percentage of Covered- Employee Payroll</u> |
|-----------------------------------|--|---------------------------------|---|--|---|
| 2012 | \$ 1,318,901 | \$ 1,318,901 | \$ - | \$4,628,098 | 28.5% |
| 2013 | 1,470,557 | 1,470,557 | - | 4,719,500 | 31.2% |
| 2014 | 1,741,005 | 1,741,005 | - | 5,284,622 | 32.9% |
| 2015 | 2,234,730 | 2,234,730 | - | 5,924,242 | 37.7% |
| 2016 | 2,579,076 | 2,579,076 | - | 6,025,885 | 42.8% |
| 2017 | 2,589,914 | 2,589,914 | - | 6,178,344 | 41.9% |
| 2018 | 2,832,336 | 2,832,336 | - | 6,348,464 | 44.6% |
| 2019 | 2,828,993 | 2,828,993 | - | 6,300,000 | 44.9% |
| 2020 | 2,835,893 | 2,835,893 | - | 6,400,000 | 44.3% |
| 2021 | 3,129,537 | 3,129,537 | - | 6,800,000 | 46.0% |

FALLS 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, 2021 |
| Actuarial cost method | Entry age normal |
| Amortization method | Level dollar |
| Remaining amortization period | 10 years |
| Asset valuation method | Fair value, 5-year smoothing |
| Actuarial assumptions: | |
| Investment rate of return | 7.75% |
| Projected salary increases | 5.0% |
| Cost-of-living adjustments | 3.0% |

FALLS TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Jeffry E. Dence
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Vice-Chairman, Board of Township Supervisors

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Township Manager

Ms. Jean E. Reukauf
Finance Director

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