

COMPLIANCE AUDIT

Greater Charleroi Regional Police Pension Plan Washington County, Pennsylvania For the Period January 1, 2018 to December 31, 2022

September 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Greater Charleroi Regional Police Board
Washington County
Charleroi, PA 15022

We have conducted a compliance audit of the Greater Charleroi Regional Police Pension Plan for the period January 1, 2018 to December 31, 2022. 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 finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the 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 finding 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 that there were no employee contributions required for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for plan members who elected to vest 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and payable to the recipients.
- We determined whether the January 1, 2019, and 2021 actuarial valuation reports, were prepared and submitted by March 31, 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.

Board officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Greater Charleroi Regional 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.

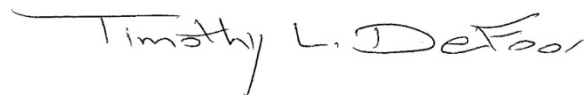
The results of our procedures indicated that, in all significant respects, the Greater Charleroi Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Failure To Establish Pension Plan By Ordinance Or Resolution

The finding contained in this report repeats a condition that was cited in our previously released report that has not been corrected by the Greater Charleroi Regional Police Board officials. We are concerned by the Greater Charleroi Regional Police Board's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation noted in this 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 Greater Charleroi Regional Police Board and, where appropriate, their responses have been included in the report. We would like to thank board 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
August 18, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Noncompliance With Prior Recommendation – Failure To Establish Pension Plan by Ordinance Or Resolution	3
Supplementary Information	4
Report Distribution List	8

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 two (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 Greater Charleroi Regional 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 Greater Charleroi Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1002 of 2012, in accordance with Act 600 (*Ordinance No. 1002 referenced establishing a regional police pension plan; however, there are no pension-specific provisions prescribed therein refer to Finding*). The plan is also affected by the provisions of collective bargaining agreements between the regional police board and its police officers. The plan was established May 3, 2012. Active members are required to contribute five (5) percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2022, the plan had 11 active members, two terminated members eligible for vested benefits in the future, and 13 retirees receiving pension benefits.

GREATER CHARLEROI REGIONAL POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendation

The Greater Charleroi Regional Police Board has complied with the prior recommendation concerning the following:

- Failure To Appoint A Chief Administrative Officer

The board adopted Resolution No. 1 of 2023 to formally appoint the board secretary as the chief administrative officer of the pension plan.

Noncompliance With Prior Recommendation

The Greater Charleroi Regional Police Board has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Establish Pension Plan By Ordinance Or Resolution

GREATER CHARLEROI REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Recommendation – Failure To Establish Pension Plan By Ordinance Or Resolution

Condition: As disclosed in the prior audit report, the regional police board failed to formally establish the regional police pension plan through the adoption of a properly executed ordinance or resolution in accordance with Act 600. Although Ordinance No. 1002 of 2012 was adopted to establish a regional police pension plan, there were no pension-specific benefit provisions prescribed in the ordinance or the referenced “Attached Exhibit A” which could not be located by regional officials.

Criteria: Section 1(a)(1) of Act 600 states, in part:

Each borough, town and township. . . maintaining a police force of three or more full-time members and each regional police department shall establish, by ordinance or resolution, a police pension fund.

Cause: The regional police board again failed to ensure the pension plan was properly established in accordance with Act 600 and in compliance with the prior recommendation.

Effect: The continued failure to formally and properly adopt a police pension plan 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 plan officials, with the assistance of their solicitor, establish the police pension plan in accordance with Act 600 through the adoption of a properly executed ordinance or resolution at their earliest opportunity to do so.

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

Auditor’s Conclusion: We are concerned that the regional police board has not complied with the prior audit recommendation and encourage compliance at the earliest opportunity to do so.

GREATER CHARLEROI 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, 2017, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-17	\$ 6,462,369	\$ 4,231,304	\$ (2,231,065)	152.7%
01-01-19	6,215,210	4,374,475	(1,840,735)	142.1%
01-01-21	6,797,797	4,477,730	(2,320,067)	151.8%

Note: The market values of the plan’s assets at 01-01-17, 01-01-19, and 01-01-21 are valued using the smoothing method described in section 210(a) of Act 205, as amended, subject to a corridor of +/- 20% of the 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.

GREATER CHARLEROI 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.

GREATER CHARLEROI REGIONAL 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>
2013	\$ -	\$ -	\$ -	\$ 390,655	-
2014	-	-	-	355,587	-
2015	-	-	-	408,663	-
2016	-	-	-	467,909	-
2017	-	-	-	482,591	-
2018	-	-	-	509,269	-
2019	-	-	-	546,325	-
2020	-	-	-	537,474	-
2021	-	-	-		
2022	-	-	-		

* Due to the timing of this audit, covered-employee payroll for 2021 and 2022 was not provided in this schedule.

GREATER CHARLEROI 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, 2021
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Plan assets are valued using the method described in section 210(a) of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.0%
Cost-of-living adjustments	2.25%

GREATER CHARLEROI REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Curt Rice
Chairperson, Greater Charleroi Regional Police Board

Mr. Joseph Smith
Vice-Chairperson, Greater Charleroi Regional Police Board

Ms. Roberta S. Doerfler
Secretary

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.