

# COMPLIANCE AUDIT

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## Middlesex Township Police Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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May 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  
Middlesex Township  
Cumberland County  
Carlisle, PA 17013

We have conducted a compliance audit of the Middlesex 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was 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 objective identified above. 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 retired during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid 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 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.

The Middlesex Township Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

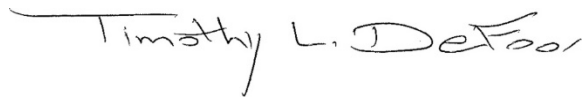
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Middlesex Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objective.

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

Finding – Incorrect Pension Benefit Calculations

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 Middlesex 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  
March 30, 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 two 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 Middlesex 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974  
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Middlesex Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2-2020, as amended, and a separately executed plan agreement with the Pennsylvania Municipal Retirement System (PMRS) effective April 1, 2020, adopted pursuant to Act 15. Prior to April 1, 2020, the plan was locally controlled by Ordinance No. 3-2011 and an agreement effective April 1, 2011, adopted pursuant to Act 15. 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, 1971. Active members are required to contribute five (5.0) percent of compensation to the plan; however, member contributions are currently waived. As of December 31, 2021, the plan had 11 active members, 1 terminated member eligible for vested benefits in the future, and 6 retirees receiving benefits.

MIDDLESEX TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Pension Benefit Calculations**

Condition: A member of the police pension plan, who retired and began receiving a monthly pension benefit on January 1, 2020, had his pension benefit incorrectly determined. The township failed to reduce the member’s normal retirement benefit by the percentage of cash proceeds improperly received (*during 1994*) as prescribed in an agreement executed February 10, 2003. It was previously disclosed in prior audit reports (*issued February 11, 2003; January 11, 2001; June 2, 1997, and February 9, 1996*) that this member, *along with another individual who had previously retired in February 2011 and whose benefit was not properly reduced*, had received cash proceeds from surrendered life insurance contracts to which they were not entitled. Moreover, it was also previously recommended (*in the audit report issued January 11, 2001*, that the police pension plan be reimbursed for the improperly distributed cash surrendered proceeds of these policies, \$20,256, plus interest, from the date of surrender to the date of repayment. However, no such reimbursement was ever made and instead the impacted parties entered into an agreement to reduce future pension benefits of the two members at retirement for the improper distribution.

Criteria: Section 5.02 of the separately executed plan agreement effective April 1, 2020, adopted pursuant to Act 15, provides a Basic Benefit, as follows:

Maximum Annual Benefit Amount fifty percent (50%) of Member Final Average Salary.  
Single Tiered Formula: Member Final Average Salary multiplied by two percent (2.00%) multiplied by the Member Years of Credited Service.

*(The ordinance and agreement covering the other retiree (effective April 1, 2011) contained similar benefit language as cited above.)*

The agreement executed on February 10, 2003, between the township, PMRS, and the two impacted police officers provided the following solution to avoid repayment of the proceeds by the parties, as follows:

The Board of Supervisors of the Township of Middlesex agrees to allow the aforementioned officers to retain the proceeds of the surrendered insurance policies but directs the Middlesex Township Police Pension Plan to reduce the present value of any benefit payable to the said officers... by the value of the officer’s cash payout of said policy plus interest, ... from the date of the payout to the date of receipt of the retirement benefit. The value of the officer’s benefit at the time he retires will be proportionally reduced to reflect the previously received cash benefit from the insurance policies proceeds.

In reviewing the retirement benefits calculated and paid by PMRS to the two police officers, there were no such reductions to the individuals’ benefits as specified by the agreement.

MIDDLESEX TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Cause: The township, along with the custodian, failed to ensure that the agreed-upon terms of the executed agreement were implemented by reducing the monthly pension benefits for the two members at the time of their subsequent retirements.

Effect: The plan is paying pension benefits to two retirees in excess of those authorized by the plan's governing document as modified by the executed agreement of *February 10, 2003*. In addition, since the purpose of the agreement was to avoid hardship to the impacted parties for lump-sum repayment of the unauthorized distributions and instead, recoup the unauthorized payments over time, since the pension benefits were not properly reduced, the township may be required to reimburse the pension plan, \$20,256 plus interest, dating back to the date of original distribution (*December 4, 1994*).

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

Recommendation: We recommend that municipal officials adjust the two retirees' pension benefits, prospectively, in accordance with the executed agreement. If the monthly pension benefits are not adjusted accordingly, we recommend that the township reimburse the pension plan the \$20,256, with interest, back to the date of original distribution through the date of repayment, at a rate earned by the pension plan. A copy of the interest calculation must be maintained along with evidence of benefit recalculation and/or pension plan repayment.

Management's Response: At an exit conference held on February 16, 2023, management indicated that they would provide a written response to this finding within 10 days. As of the date of this report, a formal written response has not been provided; however, on March 7, 2023, municipal officials indicated that they contacted the custodian who is currently reviewing the matter to determine recalculation.

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



MIDDLESEX TOWNSHIP POLICE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

A condition such as that reported by the finding contained in this audit 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.

MIDDLESEX 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	\$ 3,193,828	\$ 2,442,358	\$ (751,470)	130.8%
01-01-19	3,568,022	2,705,433	(862,589)	131.9%
01-01-21	3,920,479	3,291,781	(628,698)	119.1%

MIDDLESEX 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.

MIDDLESEX 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>
2014	\$ 51,461	\$ 56,234	\$ (4,773)	\$ 557,607	10.08%
2015	48,637	48,657	(20)	588,552	8.27%
2016	49,379	49,399	(20)	638,325	7.74%
2017	50,562	59,502	(8,940)	661,180	9.00%
2018	61,518	61,538	(20)	744,427	8.27%
2019	37,344	37,344	-	767,098	4.87%
2020	41,778	41,818	(40)	901,206	4.64%
2021	37,897	37,897	-		

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

MIDDLESEX 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	Not applicable
Remaining amortization period	None
Asset valuation method	Not available
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses
Projected salary increases *	4.1%
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year, subject to plan limitations

*The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020, which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.*

MIDDLESEX 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. Donald S. Geistwhite, Jr.**

Chairman, Board of Township Supervisors

**Ms. Eileen Gault**

Chief Administrative Officer; Township Manager

**Mr. Richard Cardamone, CPA, CGMA**

Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).