

COMPLIANCE AUDIT

Morris-Cooper Regional Police Pension Plan Clearfield County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

March 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Morris-Cooper Regional Police Commission
Clearfield County
Allport, PA 16821

We have conducted a compliance audit of the Morris-Cooper Regional Police Pension Plan for the period January 1, 2016 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for the lone plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.
- We determined whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the two transfers made during the audit period.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Morris-Cooper Regional Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the commission's internal controls as they relate to the commission's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Morris-Cooper Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.


As previously noted, the objective of our audit of the Morris Cooper-Regional Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Among several provisions relating to municipal pension plans, Act 205 which was amended September 18, 2009, through the adoption of Act 44 of 2009, 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 a decline of assets available to satisfy the long-term liabilities of the plan. The plan's funded ratio went from 77.1% as of January 1, 2015, to a ratio of 66.5% as of January 1, 2017, which is the most recent data available. Based on this information, the Municipal Pension Reporting Program issued a notification that the commission is currently in Level II moderate distress status. We encourage commission 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 Morris-Cooper Regional Police Commission and, where appropriate, their responses have been included in the report. We would like to thank commission officials for the cooperation extended to us during the conduct of the audit.

March 11, 2020


EUGENE A. DEPASQUALE
Auditor General

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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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Morris-Cooper Regional Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission 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 177 - General Local Government Code, Act of December 19, 1996 (P.L. 1158, No. 177), as amended, 53 Pa.C.S. § 101 et seq.

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Morris-Cooper Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Morris Township Ordinance No. 1986-1 and Cooper Township Ordinance No. 4-86, as amended, adopted pursuant to Act 177. The plan is also affected by the provisions of collective bargaining agreements between the commission and its police officers. The plan was established October 1, 1979. Active members are not required to contribute to the plan. As of December 31, 2019, the plan had no active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2019, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 55 and 20 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month.

Survivor Benefit:

Before Retirement Eligibility	Benefit is 50% of vested benefit payable at normal retirement date.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

None

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 6 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, 2016, 2015, AND 2014

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Normal cost	\$ 14,367	\$ 13,814	\$ 11,092	\$ 10,564	
Interest	16,919	16,524	17,546	17,100	
Experience (gain) or loss	-	(9,299)	-	-	
Assumption changes	-	63,257	-	-	
Benefit payments	(20,458)	(20,458)	(20,458)	(18,753)	
Net Change in Total Pension Liability	10,828	63,838	8,180	8,911	
Total Pension Liability - Beginning	433,153	369,315	361,135	352,224	
Total Pension Liability - Ending (a)	<u>\$ 443,981</u>	<u>\$ 433,153</u>	<u>\$ 369,315</u>	<u>\$ 361,135</u>	<u>\$ 352,224</u>
Plan Fiduciary Net Position					
Employer - Contributions *	\$ 39,248	\$ 27,176	\$ 24,440	\$ 19,888	\$ 21,145
Expected investment return	12,001	11,336	13,920	13,463	-
Additional investment return	(6,193)	(4,215)	(11,299)	(4,306)	9,660
Benefit payments	(20,458)	(20,458)	(20,458)	(18,753)	(20,458)
Administrative expenses	(3,221)	(3,251)	(2,809)	(4,100)	(1,500)
Net Change in Plan Fiduciary Net Position	21,377	10,588	3,794	6,192	8,847
Plan Fiduciary Net Position - Beginning	292,176	281,588	277,794	271,602	262,755
Plan Fiduciary Net Position - Ending (b)	<u>\$ 313,553</u>	<u>\$ 292,176</u>	<u>\$ 281,588</u>	<u>\$ 277,794</u>	<u>\$ 271,602</u>
Net Pension Liability - Ending (a-b)	<u>\$ 130,428</u>	<u>\$ 140,977</u>	<u>\$ 87,727</u>	<u>\$ 83,341</u>	<u>\$ 80,622</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.62%	67.45%	76.25%	76.92%	77.11%
Estimated Covered Employee Payroll	\$ 7,748	\$ 34,234	\$ 35,674	\$ 35,447	\$ 33,639
Net Pension Liability as a Percentage of Covered Employee Payroll	1683.38%	411.80%	245.91%	235.11%	239.67%

* The 2017 Employer Contributions include surplus contributions made.

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the commission as of December 31, 2015 calculated using the discount rate of 4.5%, as well as what the commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (3.5%)	Current Discount Rate (4.5%)	1% Increase (5.5%)
Net Pension Liability - 12/31/15	\$ 147,002	\$ 84,363	\$ 32,067

The discount rate of 4.5% used in this schedule differs from the 5.0% rate used in the plan's January 1, 2015 actuarial valuation report.

In addition, the following presents the net pension liability of the commission as of December 31, 2016 calculated using the discount rate of 5.0%, as well as what the commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (4.0%)	Current Discount Rate (5.0%)	1% Increase (6.0%)
Net Pension Liability - 12/31/16	\$ 156,079	\$ 87,727	\$ 33,434

Furthermore, the following presents the net pension liability of the commission as of December 31, 2017 and 2018, calculated using the discount rate of 4.0%, as well as what the commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (3.0%)	Current Discount Rate (4.0%)	1% Increase (5.0%)
Net Pension Liability - 12/31/17	\$ 207,510	\$ 140,977	\$ 94,089
Net Pension Liability - 12/31/18	\$ 209,011	\$ 130,428	\$ 82,407

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2010	\$ 13,465	\$ 13,465			
2011	15,748	15,879	\$ (131)		
2012	15,807	15,807		\$ 35,272	44.81%
2013	17,415	17,460	(45)		
2014	21,145	21,145		33,639	62.86%
2015	19,888	19,888		35,447	56.11%
2016	24,440	24,440		35,674	68.51%
2017	25,138	27,176	(2,038)	34,234	79.38%
2018	39,248	39,248		7,748	506.56%
2019	30,135	30,135		**	

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for all years presented.

** Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	1.94%
2017	2.51%
2016	0.94%
2015	3.39%
2014	3.68%
2013	3.96%
2012	4.22%
2011	4.30%
2010	4.27%

MORRIS-COOPER 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	\$ 258,891	\$ 331,283	\$ 72,392	78.1%
01-01-15	271,602	352,224	80,622	77.1%
01-01-17	281,588	423,273	141,685	66.5%

MORRIS-COOPER 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.

MORRIS-COOPER 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	7 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	4.0%
Projected salary increases	3.5%

MORRIS-COOPER REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Commonwealth of Pennsylvania

Mr. Randy Killion
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