

COMPLIANCE AUDIT

Oxford Borough Police Pension Plan Chester County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

October 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Honorable Mayor and Borough Council
Oxford Borough
Chester County
Oxford, PA 19363

We have conducted a compliance audit of the Oxford Borough 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 during and subsequent to 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 monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2019 and January 1, 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.
- 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.

Oxford Borough contracted with an independent certified public accounting firm for annual audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Oxford Borough 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 Oxford Borough 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:

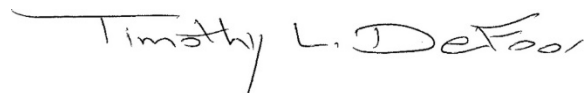
Finding No. 1 – Partial Compliance With Prior Recommendation – Inconsistent And Unauthorized Member Contributions Provision

Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent Pension Provision Not In Compliance With Act 600

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by borough officials. We are concerned by the borough's failure to correct these previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit 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 Oxford Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
August 16, 2022

CONTENTS

| | <u>Page</u> |
|---|-------------|
| Background..... | 1 |
| Status of Prior Findings | 2 |
| Findings and Recommendations: | |
| Finding No. 1 – Partial Compliance With Prior Recommendation – Inconsistent And Unauthorized Member Contributions Provision..... | 3 |
| Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent Pension Provision Not In Compliance With Act 600..... | 5 |
| Supplementary Information | 8 |
| Report Distribution List | 12 |

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 Oxford Borough 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 Oxford Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 812 of 2007, as amended. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established May 1, 1959. Active members are required to contribute 4 percent of compensation to the plan. As of December 31, 2021, the plan had 11 active members, no terminated members eligible for vested benefits in the future, and 6 retirees receiving pension benefits from the plan.

OXFORD BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendation

Oxford Borough has partially complied with the prior recommendation concerning the following:

- Unauthorized Member Contributions Provision

The collective bargaining agreement between the borough and its police officers for the years 2019 through 2022 increased the required member contribution rate from four percent to five percent effective January 1, 2022, which is in compliance with Act 600; however, plan officials failed to amend the member contributions provision in the plan's governing document, accordingly, as further discussed in the Findings and Recommendations section of this report.

Noncompliance With Prior Recommendation

Oxford Borough has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent Pension Provision Not In Compliance With Act 600

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Recommendation – Inconsistent And Unauthorized Member Contributions Provision

Condition: As disclosed in the Status of Prior Findings section of this report, the collective bargaining agreement (CBA) between the borough and its police officers for the years 2019 through 2022 increased the required member contribution rate from four percent to five percent effective January 1, 2022, which is in compliance with Act 600; however, plan officials failed to amend the member contributions provision in the plan’s governing document accordingly. The member contributions provision contained in the plan’s governing document is inconsistent with the collective bargaining agreement and is not in compliance with Act 600, as noted below:

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Collective Bargaining Agreement</u> | <u>Act 600 (as amended)</u> |
|----------------------------|--|--|--|
| Members’ contribution rate | Active Participant’s required Contribution shall be equal to four percent (4%) of his compensation for the month. (Section 3.01A of the separately executed group annuity contract restated January 1, 2008, as amended) | Officers will continue their contributory share of four percent (4%) into the pension fund, and such contribution shall be capped at 4% for the first three (3) years of this Agreement. Effective January 1, 2022, pension contributions shall increase to 5% (2019-2022, Article 13, Section D). | Not less than 5% nor more than 8% of monthly compensation. The governing body of the borough may, on an <u>annual</u> basis, by ordinance or resolution, reduce or eliminate member contributions. (Emphasis added.) |

During 2018 through 2021, members contributed four percent of compensation to the plan; however, this rate is not in accordance with Act 600 and the borough was not reducing members’ contributions on an annual basis in accordance with Act 600.

Criteria: The member contributions provision contained in the plan’s governing document and the CBA should be consistent and in compliance with Act 600 provisions. In addition, any reduction or elimination of member contributions should be done annually in accordance with Act 600 provisions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with the prior recommendation.

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Although members did contribute to the plan at a reduced rate during the audit period, member contributions were not annually reduced in accordance with Act 600 provisions. In addition, an inconsistent member contribution provision among the varying plan documents could result in improper amounts of contributions being deducted.

Recommendation: We again recommend that municipality officials take appropriate action to ensure that the member contributions provision contained in the plan's governing document is in compliance with Act 600 and consistent with the CBA at their earliest opportunity to do so.

Furthermore, we again recommend that plan officials establish adequate internal control procedures to ensure that member contribution are reduced or eliminated in accordance with Act 600 provisions.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Recommendation – Inconsistent Pension Provision Not In Compliance With Act 600

Condition: As previously disclosed in the prior report, the pension plan’s governing document, Ordinance No. 812-2007, as amended, contains a retirement provision that conflicts with the CBA between the police officers and the borough, and the provision contained in the CBA is contrary to Act 600 for certain police officers, as follows:

| <u>Benefit Provision</u> | <u>Governing Document</u> | <u>Collective Bargaining Agreement</u> | <u>Act 600 (as amended)</u> |
|--------------------------|---|--|--|
| Normal Retirement Date | The earliest first day of the month on or after the later of the date the participant reaches his 55 th birthday or the date he completes 25 years of accrual service. | Any officer hired on or after January 1, 1995, Officer will be eligible to retire at age fifty (50) and after having provided at least twenty-five (25) years of service with the Borough.... Notwithstanding the above, the following Officers shall be eligible to retire after having provided at least twenty (20) years of service and reaching age fifty-five (55): <i>[3 officers specified]</i> | An age of 55; or age 50, if supported by an actuarial cost study; AND minimum of 25 years of aggregate police service within the municipality. |

Criteria: 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. The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials again failed to update the plan’s governing document for benefits modified through the collective bargaining process and ensure adherence with the provisions of Act 600. In addition, plan officials failed to establish adequate internal control procedures to ensure compliance with the prior recommendation.

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, 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. Furthermore, 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.

Of the three officers referenced in the CBA, one officer has already retired at age 58 with 25 years of service, in compliance with Act 600 provisions, and the other two officers are still active employees.

Recommendation: We again recommend that municipal officials amend the pension plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents at their earliest opportunity to do so. To the extent that the borough is not in compliance with Act 600 and/or is contractually obligated to pay benefits 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, municipal officials should consult with the plan's actuary to determine if Supplemental Actuarial Information Form AG-MP-1 should be prepared. If it is determined the excess benefits had an impact on the borough's state aid allocations received during and subsequent to the current period, the form should be submitted to the department. Furthermore, after the submission of the form, the plan's actuary should contact the department to verify the overpayment of state aid received and plan officials should then reimburse the overpayment to the Commonwealth.

Management's Response: Municipal officials provided the following response:

The Borough acknowledges and agrees with the first part of the finding pertaining to the 3 police offers that are entitled to a retirement benefit that is outside the scope of the pension plan and Act 600.

Regarding the second part of the Finding and Normal Retirement Date, the Borough would ask this be removed from the Finding. In 2007 the Borough passed Resolution No. 1108-2007 adjusting the retirement date to Age 50 and 25 years of Services. This information was provided to the auditor at the exit conference.

OXFORD BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

While this was given as a finding during the (2014-2017): published June 2018 audit period, it was not listed during the prior audit periods of: (2011-2013): published in March 2015, (2009-2010): published in November 2011. From the 2009-2013 audit time frame no reference was made of any issue regarding the Normal Retirement Date.

Additionally, during the (2006-2008): published September 2009 Audit, it was acknowledged that Resolution No. 1108-2007 was in compliance. (Excerpt from prior audit was provided.)

In closing, in an effort to maintain consistency with previous Auditors and Reviewers of the Borough's Police Pension Plan we ask that the portion of the finding with regards to adjusting the retirement date to age 50 be removed in the formal report.

Auditor's Conclusion: Resolution No. 1108-2007 that is referred to in the Management Response amended the plan document that was effective January 1, 2004. The plan document was subsequently restated effective January 1, 2008, and it is this restated plan document that is referenced in the Condition section of this finding. Section 1.02 of this document states, "Normal Retirement Date means the earliest first day of the month on or after the later of the date the Participant reaches his 55th birthday or the date he completes 25 years of Accrual Service." The plan document effective January 1, 2008 was not provided to our Department until 2015, during the audit of the pension plan for the period January 1, 2011 to December 31, 2013. A verbal observation was issued to the municipality during the exit conference at the conclusion of that audit, recommending that the normal retirement date provision in the plan document and CBA be amended to comply with Act 600 and for consistency. A verbal observation does not appear in a formal audit report. In the subsequent audit for the period January 1, 2014 to December 1, 2017, it was determined that the borough had not complied with the verbal observation, and the matter was reported in a finding in the audit report for that period.

After follow-up discussion with the plan consultant, the plan consultant stated, "In speaking with the Borough, we stand by them on the Management Response, but we will work with them to update the Ordinance since Resolution #1108-2007 is no longer deemed sufficient."

Compliance with the finding will be evaluated in the next audit of the pension plan.

OXFORD BOROUGH 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 | \$ 2,113,875 | \$ 2,245,066 | \$ 131,191 | 94.2% |
| 01-01-19 | 2,542,099 | 2,608,955 | 66,856 | 97.4% |
| 01-01-21 | 3,206,603 | 3,299,101 | 92,498 | 97.2% |

Note: The market values of the plan’s assets at 01-01-17 and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a five year averaging period subject to a corridor between 80 and 120 percent of the 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.

OXFORD BOROUGH 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.

OXFORD BOROUGH 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 | \$ 111,050 | \$ 111,050 | \$ - | \$ 650,528 | 17.1% |
| 2013 | 116,506 | 116,506 | - | 719,932 | 16.2% |
| 2014 | 140,512 | 140,512 | - | 748,295 | 18.8% |
| 2015 | 143,734 | 143,734 | - | 785,493 | 18.3% |
| 2016 | 148,145 | 148,145 | - | 755,429 | 19.6% |
| 2017 | 150,154 | 150,154 | - | 778,092 | 19.3% |
| 2018 | 140,559 | 145,216 | (4,657) | 889,793 | 16.3% |
| 2019 | 141,708 | 141,708 | - | 902,929 | 15.7% |
| 2020 | 106,488 | 106,488 | - | 909,167 | 11.7% |
| 2021 | 104,376 | 104,376 | - | 888,376 | 11.7% |

OXFORD BOROUGH 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 | 11 years |
| Asset valuation method | Market value |
| Actuarial assumptions: | |
| Investment rate of return | 7.00% |
| Projected salary increases | 4.50% |
| Cost-of-living adjustments | None assumed |

OXFORD BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Philip Harris
Mayor

Ms. Kathryn Cloyd
Council President

Ms. Pauline Garcia-Allen
Borough Manager

Ms. Arlene Harrison
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