

COMPLIANCE AUDIT

Parkside Borough Police Pension Plan Delaware 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
Parkside Borough
Delaware County
Parkside, PA 19015

We have conducted a compliance audit of the Parkside 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 finding 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 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 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, 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Parkside 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 Parkside 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 – Noncompliance With Prior Audit Recommendations – Failure To Implement Act 44 Mandatory Distressed Provisions

Finding No. 2 – Disability Pension Benefit Not Properly Documented

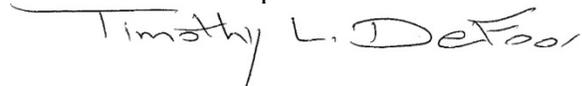
Finding No. 1 contained in this audit report repeats a condition that was cited in our previous two reports that has not been corrected by borough officials. We are concerned by the borough's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this audit report.

As previously noted, one of the objectives of our audit of the Parkside Borough 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 51.7% 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 borough is currently in Level II moderate distress status**. We encourage borough 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 Parkside 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
October 7, 2022

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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 Parkside 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 Parkside Borough Police Pension Plan is a single employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1778 and a separately executed joinder agreement with the plan custodian, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established January 1, 1993. Active members are required to contribute five percent of compensation to the plan. As of December 31, 2021, the plan had one active member, no terminated members eligible for vested benefits in the future, and three retirees receiving pension benefits from the plan.

PARKSIDE BOROUGH POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

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

- Failure To Implement Act 44 Mandatory Distress Provisions

PARKSIDE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Implement Act 44 Mandatory Distressed Provisions

Condition: 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%

As disclosed in the prior two audit reports, based on the plan’s funded ratios of 67.6%, 61.7%, and 64.3% as of January 1, 2009, 2011, and 2013, respectively, the former Public Employee Retirement Commission (PERC) issued notifications in 2010, 2012, and 2014 that the borough was in Level II moderate distress status. Based on the plan’s slightly improved funded ratio of 70.9% as of January 1, 2015, the borough’s distress level improved to Level I minimal distress status. However, based on the plan’s funded ratio of 69.4% as of January 1, 2017, the borough was again in Level II moderate distress status.

During the current audit period, the plan’s funded ratio improved to 80.3% as of January 1, 2019 which brought the distress level back up to Level I minimal distress status. However, based on the plan’s funded ratio of 51.7% as of January 1, 2021, the Municipal Pension Reporting Program (MPRP, formerly PERC) issued notification in 2022 that the borough is again in Level II moderate distress status.

Included with the determination notices, the former PERC and now the MPRP sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan’s Chief Administrative Officer and returned to the former PERC, and now the MPRP.

The borough has not submitted the election forms to the former PERC or the current MPRP since 2014 and, as of the date of this audit report, the borough has not submitted a plan for administrative improvement.

PARKSIDE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: Act 205, amended by Act 44, at Section 605(a), states:

Recovery program level II.

- (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
 - (1) The aggregation of trust funds pursuant to section 607(b).
 - (2) The submission of a plan for administrative improvement pursuant to section 607(i).

Cause: Municipal officials again failed to establish adequate internal control procedures to ensure the mandatory distress remedies have been implemented and to ensure compliance with the prior recommendation.

Effect: The municipality is not in compliance with the Act 44 mandatory distress remedy provisions applicable to Level II which are designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We again recommend that municipal officials contact the Municipal Pension Reporting Program for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 44 of 2009.

Management's Response: A management response was requested of municipal officials; however, none has been provided.

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

PARKSIDE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Disability Pension Benefit Not Properly Documented

Condition: During the current audit period, municipal officials granted a disability pension benefit to a police officer; however, the borough was unable to furnish documentation to support the determination of disability, as required by the plan’s governing document.

Criteria: Section 1.24 of the plan’s Master Plan and Trust states, in part:

“Totally and Permanent Disability” means a physical or mental condition of a Participant which has rendered the Participant incapacitated (as defined in Part I-12 of the Joinder Agreement). For purposes of this section 1.24 and Article V of Chapter II of the Master Plan, a condition shall not be treated as a Total and Permanent Disability unless such condition is a direct result of and occurs in the line of duty of Employment. Therefore, an Employee whose physical or mental impairment does not occur in the line of duty or which is the result of alcoholism, addiction to narcotics, perpetration of a felonious criminal activity or is willfully self-inflicted, is not entitled to receive disability benefits under the Plan.

Certification of such condition shall be made by the Plan Administrator in accordance with uniform principles consistently applied, upon the basis of such competent medical evidence as the Plan Administrator deems necessary and desirable, and in accord with the provisions elected under Part I-12 of the Joinder Agreement.

In addition, Section 5.04 of the plan’s Master Plan and Trust states:

Verification of Disability Benefits – The Plan Administrator shall in its sole discretion determine whether a Participant shall have incurred a Total and Permanent Disability. The Plan Administrator shall rely on the report of a physician acceptable to the Plan Administrator:

- (a) the payment of Disability Retirement Benefits shall cease if the Employer shall determine, on the basis of a medical examination by a physician acceptable to the Employer, that the Participant, prior to Normal Retirement Date, has sufficiently recovered to return to full duties of a police officer;
- (b) if the Participant refuses to undergo a medical examination prior to Normal Retirement Date, which may be ordered by the Employer or the Plan Administrator; provided that the Participant may not be required to undergo a medical examination more often than every twelve (12) months; or
- (c) if the Participant is employed as a police officer in any jurisdiction.

PARKSIDE BOROUGH POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, Part I-12 of the plan’s joinder agreement states, in part:

“Totally and Permanently Disabled” or “Total and Permanent Disability” shall mean: a condition of physical or mental impairment due to which a Participant is unable to perform the usual and customary duties of Employment with the Employer and which is reasonably expected to continue to be permanent for the remainder of the Participant's lifetime.

Cause: Municipal officials failed to ensure that the disability pension benefit was properly documented and authorized in accordance with the plan’s governing document.

Effect: Due to the lack of documentation, we were unable to validate the propriety of the disability pension benefit payments made to the individual during the audit period and/or ensure the eligibility of the recipient to receive such benefits in accordance with the plan’s governing document.

Recommendation: We recommend that municipal officials obtain and/or provide appropriate documentation to support the determination of disability in accordance with the plan’s governing document. If it is determined that the disability did not meet the requirements set forth in the plan’s governing document, the disability benefits will be considered excess benefit payments, and we recommend that any pension benefits actually due to the individual based on age and years of service be determined and recalculated in accordance with the plan’s governing document and adjusted prospectively. To the extent that the borough is contractually obligated to pay excess benefits to the individual, 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, the excess benefits will be deemed ineligible for funding with state pension aid. Accordingly, the plan’s actuary may be required to determine the impact, if any, of the excess benefits on the plan’s future state aid allocations and submit this information to the department.

We also recommend that municipal officials develop and implement appropriate internal control procedures, including the maintenance of required documentation, to evidence propriety and eligibility of future disability pension benefits granted in accordance with the requirements of the plan’s governing document.

Management’s Response: A management response was requested of municipal officials; however, none has been provided.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

PARKSIDE 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	\$ 652,724	\$ 940,980	\$ 288,256	69.4%
01-01-19	792,826	987,326	194,500	80.3%
01-01-21	796,610	1,541,807	745,197	51.7%

Note: The market value 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 subject to a ceiling of 130 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.

The Actuarial Accrued Liability as of 01-01-21 reflects a disability benefit beginning in 2019. See Finding No. 2 in this report.

PARKSIDE 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.

PARKSIDE 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>
2014	\$ 54,628	\$ 54,628	\$ -	\$ 237,724	22.98%
2015	56,519	56,519	-	165,746	34.10%
2016	57,759	57,759	-	160,000	36.10%
2017	58,480	58,480	-	166,354	35.15%
2018	89,896	89,896	-	164,652	54.60%
2019	89,364	89,364	-	160,000	55.85%
2020	68,392	68,392	-	40,000	170.98%
2021	55,314	55,314	-	75,000	73.75%

PARKSIDE 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	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 130% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	2.5% per annum

PARKSIDE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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