

COMPLIANCE AUDIT

Southwestern Regional Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

January 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**

Southwestern Regional Police Board
York County
Spring Grove, PA 17362

We have conducted a compliance audit of the Southwestern Regional Non-Uniformed 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 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 plan member 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 individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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.

The Southwestern Regional Non-Uniformed 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.

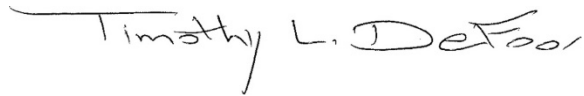
Regional officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Southwestern Regional Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local 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 Southwestern Regional Non-Uniformed 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 – Allocation Of State Aid In Excess Of Entitlement

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 former officials of the Southwestern Regional Police Board and, where appropriate, their responses have been included in the report. We would like to thank the former regional 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
December 16, 2022

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Allocation Of State Aid In Excess Of Entitlement.....	2
Supplementary Information	3
Report Distribution List	4

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 Southwestern Regional Non-Uniformed 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 Southwestern Regional Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Resolution No. 10-01 and a separately executed plan agreement with the Pennsylvania Municipal Retirement System (PMRS), effective December 1, 2008, adopted pursuant to Act 15. The plan was established January 1, 2003. Active members were not required to contribute to the plan. The regional was required to contribute 12 percent of each member's compensation to the plan.

The Southwestern Regional Police Department discontinued its operations effective December 31, 2019. At that time, the Southwestern Regional Non-Uniformed Pension Plan had no active members and one retiree receiving pension benefits. Spring Grove Borough, one of the regional's member municipalities, agreed to assume any legal and financial responsibility for the Southwestern Regional Non-Uniformed Pension Plan going forward, effective July 1, 2020.

SOUTHWESTERN REGIONAL NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2020, plan officials allocated state aid to the non-uniformed pension plan in excess of the plan’s annual pension costs under Act 205, as illustrated below:

State aid allocation	\$ 4,924
Less: Actual municipal pension costs	<u> -</u>
Excess state aid	<u>\$ 4,924</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system state aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plan for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials were unaware that due to there being no active members in the plan in 2020, the plan had no pension costs for the year 2020.

Effect: It is this department’s opinion that, since the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years; however, plan officials do have the option to allocate the excess state aid to the former regional’s defined benefit police pension plan.

Recommendation: Since the assets and liabilities of the former Southwestern Regional Police Pension Plan were transferred to the Northern York Regional Police Department’s police pension plan in November 2020, we recommend that plan officials allocate the \$4,924 of excess 2020 state aid to the Northern York Regional Police Department’s defined benefit police pension plan.

Management’s Response: The former regional police board chairman provided the following response:

We will forward the findings of this audit to the Northern Regional Police Pension staff and proceed accordingly.

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

SOUTHWESTERN REGIONAL NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Statutorily Required Contribution (SRC)*	Contributions in Relation to the SRC*	Contribution Deficiency (Excess)**	Covered- Employee Payroll***	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 6,174	\$ 6,174	\$ -	\$ 51,286	12.04%
2015	6,417	6,348	69	53,309	11.91%
2016	6,301	6,301	-	52,338	12.04%
2017	6,425	6,425	-	53,374	12.04%
2018	6,616	6,108	508	54,964	11.11%
2019	6,746	7,254	(508)	56,054	12.94%
2020	20	4,944	(4,924)	-	
2021	-	-	-	-	

* The Statutorily Required Contribution (SRC) is a contribution amount based upon the payroll and the contribution rate as outlined under the terms of the cash balance pension plan.

** The Statutorily Required Contribution and the actual Contribution were provided by PMRS. Deviation between these amounts may be due to contributions to or transfers from the municipal reserve account. The 2015 deficiency was funded from the municipal reserve account. The 2018 deficiency was funded in January of 2019.

*** As of December 31, 2019 there were no active members in the pension plan. As such, there will be no further contributions required for this plan in the future. Additionally, except for the inadvertent deposit of state aid during 2020 noted above and in the Finding, the assets accumulated in this pension fund have been transferred to the retiree reserve for the benefit of the sole remaining retiree of this cash balance pension plan.

SOUTHWESTERN REGIONAL NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Matt Bollinger
Former Regional Board Member

Ms. Kimberly Hackett
Manager, Spring Grove Borough

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. 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.