

# COMPLIANCE AUDIT

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## Southwestern Regional Police Pension Plan York County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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July 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Southwestern Regional Police Board  
York County  
Spring Grove, PA 17362

We have conducted a compliance audit of the Southwestern Regional Police Pension Plan for the period January 1, 2014 to December 31, 2017. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 audit 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 audit 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 the plan member who retired during the current audit period represent payments to only one 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 benefit 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, 2013, January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014, 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.

Southwestern Regional Police Board contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2016, 2015, and 2014 which are available at the regional's offices. Those 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 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 regional's internal controls as they relate to the regional's compliance with those requirements and that we considered to be significant within the context of our audit objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Southwestern Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Southwestern Regional Police Board and, where appropriate, their responses have been included in the report. We would like to thank regional officials for the cooperation extended to us during the conduct of the audit.

June 25, 2018



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 Southwestern 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Southwestern Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution 14-02 which adopted a separately executed plan agreement effective January 1, 2012, pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the regional and its police officers. The plan was established July 15, 1971. Active members were required to contribute 2.5 percent of their monthly compensation to the plan for the years 2014 and 2015, were not required to contribute for the year 2016, and were required to contribute 1.5 percent of their monthly compensation to the plan for the year 2017. As of December 31, 2017, the plan had 14 active members, 1 terminated member eligible for vested benefits in the future, 1 retiree receiving pension benefits from the plan, and 2 retirees receiving benefits funded through annuities purchased with plan assets.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 55 and 25 years of benefit service
Early Retirement	None
Vesting	A member is 100% vested after 12 years of service

### Retirement Benefit:

Benefit equals 50% of Basic Monthly Earnings (BME) multiplied by a fraction equal to total years of service earned to date divided by number of years of service projected to the participant's normal retirement age. Service is credited for each month of service completed. BME is the final 36 consecutive month period of employment.

### Survivor Benefit:

After Retirement Eligibility	Killed-in-service benefit (paid by state) – Benefit equals 100% of final salary continued to surviving spouse and dependent children. If death is not service-related, plan provides 50% of the benefit the member was or could have been receiving if retired.
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### Service Related Disability Benefit:

If a participant incurs a total and permanent disability prior to retirement age, he/she shall receive a monthly income equal to 50% of basic monthly earnings earned at the time of disability.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Southwestern Regional Police Board has complied with the prior audit recommendations concerning the following:

- Plan Document Not Adopted By Ordinance Or Resolution

Regional officials formally adopted the restated plan document through Resolution 14-02 during the current audit period; and

- Inconsistent Pension Benefit Provision

Regional officials adopted a plan amendment dated October 8, 2014 thereby amending the plan document's definition of compensation to ensure a consistent definition exists among the varying plan documents.



SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 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, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 145,188	\$ 142,314
Interest	177,469	187,564
Difference between expected and actual experience	-	(138,414)
Benefit payments, including refunds of member contributions	(16,952)	(35,173)
Net Change in Total Pension Liability	<u>305,705</u>	<u>156,291</u>
Total Pension Liability - Beginning	2,593,585	2,899,290
Total Pension Liability - Ending (a)	<u>\$ 2,899,290</u>	<u>\$ 3,055,581</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 110,886	\$ 108,962
Contribution – member	22,816	22,855
Net investment income	143,022	(32,463)
Benefit payments, including refunds of member contributions	(16,952)	(35,173)
Administrative expense	(224)	(675)
Net Change in Plan Fiduciary Net Position	<u>259,548</u>	<u>63,506</u>
Plan Fiduciary Net Position - Beginning	3,183,291	3,442,839
Plan Fiduciary Net Position - Ending (b)	<u>\$ 3,442,839</u>	<u>\$ 3,506,345</u>
Net Pension Liability - Ending (a-b)	<u>\$ (543,549)</u>	<u>\$ (450,764)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	118.75%	114.75%
Estimated Covered Employee Payroll	\$ 912,691	\$ 985,665
Net Pension Liability as a Percentage of Covered Employee Payroll	(59.55%)	(45.73%)

SOUTHWESTERN 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 regional as of December 31, 2014 and 2015, calculated using the discount rate of 6.50%, as well as what the regional'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 (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
	<hr/>	<hr/>	<hr/>
Net Pension Liability - 12/31/14	\$ (42,029)	\$ (543,549)	\$ (955,030)
Net Pension Liability - 12/31/15	\$ 56,303	\$ (450,764)	\$ (868,697)

SOUTHWESTERN 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	\$ 2,403,373	\$ 2,191,030	\$ (212,343)	109.7%
01-01-15	3,442,839	2,760,875	(681,964)	124.7%
01-01-17	3,760,091	3,373,526	(386,565)	111.5%

SOUTHWESTERN 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.

SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 82,673	100.0%
2013	85,611	100.1%
2014	109,143	101.6%
2015	108,962	100.0%
2016	82,873	100.0%
2017	68,907	114.3%

SOUTHWESTERN 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	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	3.5%
Cost-of-living adjustments	2.5% per year

SOUTHWESTERN REGIONAL POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Matt Bollinger**  
Chairman, Southwestern Regional Police Board

**Mr. Larry Miller**  
Vice-Chairman, Southwestern Regional Police Board

**Mr. Rodney Shearer**  
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**Mr. Robert Whyland**  
Board Member

**Ms. Velda Nickell**  
Chief Administrative Officer

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