

COMPLIANCE AUDIT

Tinicum Township Police Pension Plan Delaware County, Pennsylvania

June 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Commissioners
Tinicum Township
Delaware County
Essington, PA 19029

We have conducted a compliance audit of the Tinicum Township Police Pension Plan 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 objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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:

- For the period January 1, 2022 to December 31, 2023, 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 the period January 1, 2022 to December 31, 2023, 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.
- For the period January 1, 2022 to December 31, 2023, 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 the years in the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2019 to December 31, 2023, we determined whether retirement benefits calculated for plan members who retired during the period noted 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, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.
- For the period January 1, 2022 to December 31, 2023, we determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- For the period January 1, 2022 to December 31, 2023, we determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the period noted.

- For the period January 1, 2022 to December 31, 2023, we determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

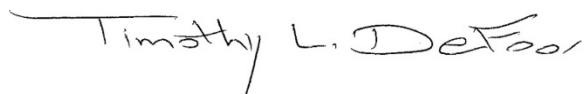
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Tinicum Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 Tinicum Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Pension
Benefits Not Authorized By Act 600

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 Tinicum Township and, where appropriate, their responses have been included in the report.



Timothy L. DeFoor
Auditor General
May 30, 2024

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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 two 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 Tinicum Township 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Tinicum Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2004-775, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established February 27, 1957. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2023, the plan had 14 active members, no terminated members eligible for vested benefits in the future, and 14 retirees receiving pension benefits.

TINICUM TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Tinicum Township has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Pension Benefits Not Authorized By Act 600

TINICUM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Recommendation – Pension Benefits Not Authorized
By Act 600**

Condition: As disclosed in the prior five audit reports, the township provided pension benefits to retired police officers in excess of those authorized by Act 600. During 2002 to 2004, it was disclosed that the township provided excess pension benefits to three police officers who retired by including accumulated unused sick and vacation leave that was not earned during the pension computation period and special duty pay, which was specifically prohibited as part of the definition of “average monthly earnings” contained in the plan’s governing document, in the determination of the final average monthly salary used to calculate their monthly pension benefits. During 2010 and 2012, the township granted excess benefits to two additional police officers who retired, by including severance pay that was not considered earned during the pension computation period in the determination of the final average monthly salary used to calculate their monthly pension benefits. During 2014, the township provided excess pension benefits to an additional police officer who retired, by including not only severance pay but also accumulated unused compensatory time not earned during the pension computation period in the final average salary used to calculate the monthly pension benefit. During 2017, the township provided excess pension benefits to a police officer who was granted a service-related disability pension benefit, by including severance pay in the final average monthly salary used to calculate the monthly pension benefit. These six retired officers (one of the original recipients passed away in 2017) continue to receive monthly pension benefits in excess of Act 600 through the date of this report.

Similar conditions occurred during the current audit period. The township again provided pension benefits in excess of Act 600 to a police officer who retired February 28, 2021, by including severance pay in the amount of \$51,780 in the final average monthly salary used to calculate the monthly pension benefit. The township also provided pension benefits in excess of Act 600 to a police officer who was granted a service-related disability pension benefit on November 30, 2021, by including severance pay in the amount of \$28,548 in the final average monthly salary used to calculate the monthly pension benefit. Finally, the township provided pension benefits in excess of Act 600 to a police officer who was granted a service-related disability pension benefit on December 31, 2021, by including severance pay in the amount of \$29,682 in the final average monthly salary used to calculate the monthly pension benefit.

Section 4.2(a) of the plan’s governing document, Ordinance No. 2004-775, states, in part:

The monthly retirement pension benefit for a policeman retiring under Section 4 shall be determined as: 50% of the average monthly salary which he was paid during his last 36 months of service...

The township has interpreted this provision to authorize the inclusion of lump-sum payments for leave earned outside the pension computation period.

TINICUM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, Section 4 of Ordinance No. 554 of 1981 states, in part:

Average monthly earnings shall mean those earnings reported to the Internal Revenue Service, except Special Duty Pay as described in Section 3.

Criteria: Section 5(c) of Act 600 states, in part:

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

Although Act 600 does not define “salary,” the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum payments for leave that was not earned during the pension computation period or severance payments.

Cause: As previously disclosed, plan officials determined the first three referenced retirees’ pension benefits in accordance with arbitration rulings issued during 2005 and 2009. And as such, plan officials believed that the township was contractually obligated to continue to calculate pension benefits in the same manner for those police officers who retired not only in 2010, 2012, 2014, and 2017, but also currently for the officers who retired during 2021.

Effect: The plan is paying approximately \$3,452 in monthly pension benefits to nine retirees (formerly ten; however, one of the original retirees receiving excess benefits since 2004 passed away during 2017) in excess of those authorized by Act 600. *(It should be noted that this monthly excess amount does not include the impact of the excess monthly amount resulting from the inclusion of the accumulated unused sick and vacation leave not earned during the pension computation from the original retirees (retired during 2002 and 2004) as the information is no longer available due to the department’s record retention policy).*

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. Since the township received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

TINICUM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that all pension benefits be determined in accordance with Act 600 provisions. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess 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, the plan's actuary may be required to determine the impact, if any, of the excess benefits on the township's future state aid allocations and submit this information to the department. If it is determined the excess benefits had an impact on the township's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

We further recommend that future pension benefits be calculated and paid in accordance with the applicable provisions contained in the plan's governing document in effect at the time of a plan member's retirement.

Management's Response: Municipal officials agreed with the finding without exception. A written management response was requested but not provided, however, in prior audits, municipal officials indicated concerns with the definition of salary and believed they are contractually obligated to include this form of compensation in calculating benefits. Municipal officials also previously indicated that the township will continue to negotiate in good faith to comply with the audit recommendations during the next bargaining period.

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

TINICUM TOWNSHIP 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, 2019, 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)
01-01-19	\$ 6,964,468	\$ 9,616,149	\$ 2,651,681	72.4%
01-01-21	9,657,293	11,545,731	1,888,438	83.6%
01-01-23	10,141,212	14,128,447	3,987,235	71.8%

Note: The market value of the plan's assets at 01-01-23 has been adjusted to reflect the smoothing of gains and/or losses subject to a maximum of 120 percent and a minimum of 80 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.

TINICUM TOWNSHIP 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.

TINICUM TOWNSHIP 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	\$ 229,092	\$ 229,092	\$ -	\$1,509,998	15.17%
2015	231,581	231,581	-	1,546,510	14.97%
2016	318,870	318,870	-	1,591,820	20.03%
2017	328,542	328,542	-	1,712,864	19.18%
2018	370,037	370,037	-	1,807,560	20.47%
2019	359,853	359,853	-	1,637,252	21.98%
2020	497,372	497,372	-	1,870,000	26.60%
2021	492,612	492,612	-	1,800,000	27.37%
2022	412,366	412,366	-	1,739,388	23.71%
2023	397,941	397,941	-	1,570,856	25.33%

TINICUM TOWNSHIP 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, 2023
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 maximum of 120% and a minimum of 80% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases *	5.0%
Cost-of-living adjustments	None assumed

* Includes inflation at 2.25%

TINICUM TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Patrick K. McCarthy
President, Board of Township Commissioners

Mr. Patrick Barr
Vice President, Board of Township Commissioners

Mr. Roger Joseph
Township Commissioner

Mr. Dennis R. Arthur
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Mr. David D. Schreiber
Township Manager

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