

COMPLIANCE AUDIT

York Area Regional Police Department Police Pension Plan York County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

December 2022



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Regional Police Commission
York County Regional Police Department
York County
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We have conducted a compliance audit of the York Area Regional Police Department 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 regional police department 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 regional police department 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 regional police department'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 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 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, 2019 actuarial valuation report was prepared and submitted by March 31, 2020 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.
- 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.

The former York Area Regional Police Department contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2018, 2019, and 2020, which are available at the regional police department's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Effective January 1, 2020, the York Area Regional Police Department Police 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.

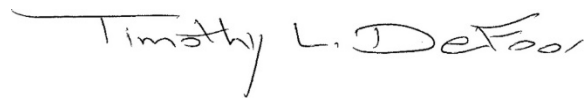
Regional police department officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the York Area Regional Police Department Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative 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 York Area Regional Police Department 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 Audit Recommendation - Pension Benefits In Excess Of The Plan’s Governing Document
- Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

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



Timothy L. DeFoor
Auditor General
November 23, 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 York Area Regional Police Department 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 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 York Area Regional Police Department Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2020-02, and a separately executed plan agreement with the plan's custodian, effective January 1, 2020, adopted pursuant to Act 15. Prior to January 1, 2020, the plan was locally controlled by the provisions of Resolution No. 2007-01, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the regional police commission and the regional police department's police officers. The plan was established March 1, 1965. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2021, the plan had 42 active members, 3 terminated members eligible for vested benefits in the future, and 32 retirees receiving pension benefits from the plan.

On August 16, 2021, East Manchester Township, Windsor Township, and York Township entered into a charter agreement to establish the York County Regional Police Department. The York County Regional Police Department began operating on January 1, 2022 as a merger of the York Area Regional Police Department and the Northeastern Regional Police Department. As of the date of this report, no action had been taken regarding merging the two former regional police departments' existing police pension plans.

YORK AREA REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Plan officials partially complied with the prior audit recommendation concerning the following:

- Pension Benefits In Excess Of The Plan's Governing Document

During the current audit period, the excess pension benefits cited in the prior finding were adjusted pursuant to an arbitration award. However, plan officials failed to comply with the recommendation to calculate and pay future pension benefits in accordance with the applicable provisions contained in the plan's governing document in effect at the time of a plan member's retirement, and again provided an excess monthly benefit to a plan member who retired during the current audit period, as further discussed in the Findings and Recommendations section of this report.

YORK AREA REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Partial Compliance With Prior Audit Recommendation - Pension Benefits
In Excess Of The Plan’s Governing Document**

Condition: As disclosed in the Status of Prior Finding section of this report, plan officials partially complied with the prior audit recommendation by adjusting the excess pension benefits cited in the prior finding. However, plan officials failed to comply with the recommendation to calculate and pay future pension benefits in accordance with the applicable provisions contained in the plan’s governing document in effect at the time of a plan member’s retirement, and again provided an excess monthly benefit to a plan member who retired during the current audit period. Plan officials included accumulated, unused vacation, personal, and sick leave pay in the compensation used to calculate the final average salary for a police officer who retired on March 31, 2021 even though this type of remuneration was specifically excludable according to the plan document, except for part of the compensation for sick leave, since the member was a York Township police officer prior to the regionalization and therefore subject to the terms of a side letter.

Criteria: Section 5.02 of the pension plan’s separately executed plan agreement, amended and restated effective November 1, 2020, provides the following pension benefit formula for basic benefit:

Fifty percent (50%) of Member Final Average Salary.

Section 1.38 defines Final Average Salary as follows:

The average annual annualized Compensation earned and paid during the thirty-six (36) most recent consecutive calendar months of Credited Service.

Section 1.23 defines Compensation as follows:

The total amount of all payments, direct or indirect, made by the Municipality to an [sic] Member for services rendered to the Municipality, for a calendar year which ends within a Plan Year, as defined in Code Section 3401(a) for purposes of tax withholding at the source (as reported to the Employee on Form W-2 for such year). Compensation shall include before-tax or salary deferral contributions made to this Plan or any other plan of the Municipality, under a Code Section 132(f)(4) qualified transportation plan or under Code Sections 125, 402(g)(3), 457 or 414(h), on behalf of a Member for such Plan Year. The term Compensation shall **exclude** the following:

YORK AREA REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

- Unused Accrued Leave Payments
- Unused Sick Leave Payments
- All other Compensation except regular salary not otherwise enumerated in the Base Plan Document or in this Adoption Agreement.

In addition, pursuant to the terms of a side letter that was agreed upon prior to the regionalization of the York Area Regional Police Department, regional police officers formerly employed by York Township may cash in up to fifty accrued, unused sick days at retirement which shall be rolled into their final average salary calculation.

Cause: Plan officials failed to establish adequate internal control procedures to ensure full compliance with this department's prior audit recommendation.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by the plan's governing document.

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 regional police department received state aid based on unit value for its pension plans 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.

Recommendation: We recommend that plan officials adjust the retiree's pension benefit prospectively in accordance with the provisions contained in the plan's governing document, and limit future benefit payments from the pension plan to those authorized by the plan's governing document. In addition, any excess benefit payments made from the plan will be deemed ineligible for funding with state aid. Accordingly, the pension plan's actuary may be required to determine the impact, if any, of the excess benefit payments on the regional's future state aid allocations and submit this information to the Department. If it is determined the excess benefit payments had an impact on the regional police department'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.

YORK AREA REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

We further again 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: Plan officials agreed with the finding without exception.

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

Finding No. 2 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Condition: The regional police department's accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2021. Regional police department officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the regional police department may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the regional police department.

Cause: Regional police department officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, regional police department officials indicated that the plan's custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2021.

Effect: Although we were able to obtain alternate documentation from the regional police department to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits regional police department officials from effectively monitoring the plan's financial operations and could lead to undetected errors or improprieties in account transactions.

YORK AREA REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that regional police department officials establish and maintain a financial accounting and reporting system that allows the regional police department to effectively monitor the plan’s financial operations, even in the absence of statements from the plan custodian. Regional police department officials should refer to the Auditor General’s Bulletin No. 2-88 entitled “Preparation, Maintenance and Auditability of Financial Records,” for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that regional police department officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2021 to ensure the accuracy and propriety of the transaction activity.

Management’s Response: Regional police department officials agreed with the finding without exception.

Auditor’s Conclusion: It was noted that the plan custodian recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. In addition, the custodian has taken active measures to resolve these issues and expects the 2021 financial reports and statements to be distributed before the end of 2022. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

YORK AREA REGIONAL POLICE DEPARTMENT 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, 2015, 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)
01-01-15	\$ 21,803,425	\$ 23,817,710	\$ 2,014,285	91.5%
01-01-17	23,014,400	26,443,761	3,429,361	87.0%
01-01-19	24,592,698	28,645,661	4,052,963	85.9%

Note: The information presented represents the most recently filed actuarial information available and although the actuarial valuation report valued 01-01-21 is currently due in accordance with Act 205, the regional police department is working with the Municipal Reporting Program as of the date of this report to finalize the information submitted.

YORK AREA REGIONAL POLICE DEPARTMENT 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.

YORK AREA REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2012	\$ 472,201	\$ 472,201	\$ -		
2013	633,464	640,616	(7,152)		
2014	662,972	662,972	-	\$3,589,972	18.47%
2015	893,378	893,378	-	3,718,603	24.02%
2016	913,523	913,523	-	3,668,688	24.90%
2017	935,219	935,219	-	3,620,503	25.83%
2018	926,424	926,424	-	3,909,335	23.70%
2019	1,238,393	1,238,393	-	3,970,212	31.19%
2020	1,265,911	1,265,911	-		
2021	1,273,984	1,273,949	35		

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014. In addition, due to the timing of this audit, covered-employee payroll for 2020 and 2021 was not provided in this schedule.

YORK AREA REGIONAL POLICE DEPARTMENT 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	9 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases *	5.0%
Cost-of-living adjustments	3% per year postretirement

YORK AREA REGIONAL POLICE DEPARTMENT POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. David Naylor
Chairman, Regional Police Commission

Mr. Robert Kessler
Vice-Chairman, Regional Police Commission

Ms. Tracy Fleming
Business Administrator

Mr. Tim Damon
Chief of Police

Mr. Richard Cardamone
Pennsylvania Municipal Retirement System

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