

# LIMITED PROCEDURES ENGAGEMENT

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## Greater Charleroi Regional Police Pension Plan Washington 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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Greater Charleroi Regional Police Board  
Washington County  
Charleroi, PA 15022

We conducted a Limited Procedures Engagement (LPE) of the Greater Charleroi Regional Police Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether retirement benefits calculated for plan members who retired during the engagement 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.

- Whether the January 1, 2013, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Greater Charleroi Regional Police Pension Plan was not being 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 – Failure To Establish Pension Plan By Ordinance Or Resolution


Finding No. 2 – Failure To Appoint A Chief Administrative Officer

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The Greater Charleroi Regional Police Board should continue to maintain documentation related to this 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 Greater Charleroi Regional Police Pension Plan and, where appropriate, their responses have been included in this report. We would like to thank Greater Charleroi Regional Police Board officials for the cooperation extended to us during the conduct of this LPE.

July 9, 2018

  
EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Findings and Recommendations:	
Finding No. 1 – Failure To Establish Pension Plan By Ordinance Or Resolution .....	1
Finding No. 2 – Failure To Appoint A Chief Administrative Officer .....	1
Supplementary Information .....	3
Report Distribution List .....	9

GREATER CHARLEROI REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Establish Pension Plan By Ordinance Or Resolution**

Condition: As disclosed to officials in a verbal observation during the conduct of our prior engagement, the regional police pension plan was not formally established by ordinance or resolution in accordance with Act 600 provisions.

Criteria: Section 1(a)(1) of Act 600 states, in part:

Each borough, town and township. . . maintaining a police force of three or more full-time members and each regional police department shall establish, by ordinance or resolution, a police pension fund...

Cause: Plan officials failed to comply with our previous recommendation to ensure that the regional police pension plan was properly established by ordinance or resolution in accordance with Act 600 provisions.

Effect: The failure to formally and properly adopt a police pension plan could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We recommend that plan officials, with the assistance of their solicitor, establish the police pension plan in accordance with Act 600 provisions through the adoption of a properly executed ordinance or resolution at their earliest opportunity to do so.

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 – Failure To Appoint A Chief Administrative Officer**

Condition: Plan officials did not appoint a chief administrative officer (CAO) for the pension plan by ordinance, resolution or by a motion recorded in the minutes of a board meeting.

Criteria: Section 102 of Act 205 defines the CAO as “The person who has primary responsibility for the execution of the administrative affairs of the municipality in the case of the municipality, or of the pension plan in the case of the pension plan, or the designee of that person.”

GREATER CHARLEROI REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Act 205 identifies specific duties for the CAO position, as follows:

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports (Section 201(b));
- Make actuarial report information available to plan members (Section 201(e)).
- Annually, determine and submit to the governing body of the plan the financial requirements of the pension plan and minimum municipal obligation (Section 302(b), Section 302(c), Section 303(b), Section 303(c) and Section 304); and
- Provide the governing body of the plan with a cost estimate of the effect of any proposed benefit plan modification (Section 305(a)).

Cause: Plan officials were unaware of the need to appoint a CAO for the pension plan in accordance with Act 205 provisions.

Effect: The failure to formally appoint a CAO could result in important filing deadlines being overlooked, state aid being adversely affected and/or delayed and investment opportunities being lost.

Recommendation: Because of the significance of the CAO's responsibilities to the pension plan, we recommend that the CAO be formally appointed by ordinance, resolution or motion recorded in the minutes of a council meeting. Such ordinance, resolution or motion should detail the CAO's responsibilities and be filed with other plan documents.

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.

GREATER CHARLEROI REGIONAL POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 71,702	\$ 74,642	\$ 77,964
Interest	313,648	297,128	372,239
Difference between expected and actual experience	(288,184)	-	(68,152)
Changes of assumptions	203,986	-	(80,839)
Benefit payments, including refunds of member contributions	(309,853)	(317,585)	(320,162)
Net Change in Total Pension Liability	(8,701)	54,185	(18,950)
Total Pension Liability - Beginning	4,285,609	4,276,908	4,331,093
Total Pension Liability - Ending (a)	<u>\$ 4,276,908</u>	<u>\$ 4,331,093</u>	<u>\$ 4,312,143</u>
Plan Fiduciary Net Position			
Net investment income	\$ 572,288	\$ 40,737	\$ 337,487
Benefit payments, including refunds of member contributions	(309,853)	(317,585)	(320,162)
Administrative expense	(1,800)	(1,500)	(3,875)
Other	-	-	944
Net Change in Plan Fiduciary Net Position	260,635	(278,348)	14,394
Plan Fiduciary Net Position – Beginning	5,795,518	6,056,153	5,777,805
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,056,153</u>	<u>\$ 5,777,805</u>	<u>\$ 5,792,199</u>
Net Pension Liability - Ending (a-b)	<u>\$ (1,779,245)</u>	<u>\$ (1,446,712)</u>	<u>\$ (1,480,056)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	141.60%	133.40%	134.32%
Estimated Covered Employee Payroll	\$ 355,587	\$ 408,663	\$ 467,909
Net Pension Liability as a Percentage of Covered Employee Payroll	(500.37%)	(354.01%)	(316.31%)

GREATER CHARLEROI 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 Greater Charleroi Regional Police Plan as of December 31, 2014, 2015 and 2016, calculated using the discount rate of 7.00%, as well as what the Greater Charleroi Regional Police Plan'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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability - 12/31/14	\$ (1,291,671)	\$ (1,779,245)	\$ (2,186,101)
Net Pension Liability - 12/31/15	\$ (952,961)	\$ (1,446,712)	\$ (1,858,723)
Net Pension Liability - 12/31/16	\$ (1,080,933)	\$ (1,480,056)	\$ (1,961,631)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2016	6.03%
2015	0.69%
2014	10.15%
2013	17.86%
2012	8.94%



GREATER CHARLEROI 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	\$ 6,257,965	\$ 4,255,637	\$ (2,002,328)	147.1%
01-01-15	6,358,584	4,276,908	(2,081,676)	148.7%
01-01-17	6,462,369	4,231,304	(2,231,065)	152.7%

The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and or losses over a 4-year averaging period. The market values of the plan's assets at 01-01-15 and 01-01 17 are valued using the smoothing method described in section 210(a) of Act 205, as amended, subject to a corridor of +/- 20% of the fair market value of assets. These methods 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.

GREATER CHARLEROI 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.

GREATER CHARLEROI 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	None	N/A
2013	None	N/A
2014	None	N/A
2015	None	N/A
2016	None	N/A
2017	None	N/A

GREATER CHARLEROI 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	Plan assets are valued using the method described in section 210(a) of Act 205, as amended.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%
Cost-of-living adjustments	2.25%

GREATER CHARLEROI 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. William Lee**  
Chairperson, Greater Charleroi Regional Police Board

**Mr. Curt Rice**  
Vice-Chairperson, Greater Charleroi Regional Police Board

**Ms. Roberta S. Doerfler**  
Secretary

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