

COMPLIANCE AUDIT

Southern Police Commission Non-Uniformed Pension Plan York County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

February 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

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We have conducted a compliance audit of the Southern Police Commission 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2019, and January 1, 2021, actuarial valuation reports were prepared and submitted by March 31, 2020, and 2022, 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 Southern Police Commission contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year 2021, which is available at the regional police commission's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

The Southern Police Commission 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.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Southern Police Commission 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 Southern Police Commission 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 – Failure To Include An Eligible Employee In 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 Southern Police Commission and, where appropriate, their responses have been included in the report. We would like to thank regional police commission 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
January 18, 2023

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Failure To Include An Eligible Employee In The Pension Plan.....	2
Supplementary Information	4
Report Distribution List	8

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 Southern Police Commission 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 Southern Police Commission Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution 2012-01 and a separately executed plan agreement with the plan custodian, adopted pursuant to Act 15. The plan was established January 1, 1996. Active members are not required to contribute to the plan. As of December 31, 2021, the plan had no active members, no terminated members eligible for vested benefits in the future, and one retiree receiving pension benefits.

SOUTHERN POLICE COMMISSION NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Include An Eligible Employee In The Pension Plan

Condition: As disclosed to officials during the prior audit, the Southern Police Commission failed to include an employee, who was hired on January 1, 2016, and satisfied the eligibility criteria prescribed, in the non-uniformed pension plan document in accordance with Act 15.

Criteria: The pension plan operates pursuant to the provisions of Act 15. Section 402 of Act 15, states, in part:

. . . When a municipality elects to enroll its municipal employees into the system, then each officer other than elected officers, and each municipal employee thereof, employed on a full-time basis, shall be required to become a member of the system. . .

Section 3.1 of Article III of the plan’s separately executed plan agreement as adopted by Resolution 2012-1, states the following:

Membership for full-time officers and employees of the municipality is mandatory.

Additionally, Section 3.3 of Article III, states the following:

Membership for elected officials, part-time employees, seasonal employees, and temporary employees is prohibited, as is membership for individuals paid only a fee basis.

Cause: During the prior audit, the commission conveyed that it was their original intention to terminate the non-uniformed pension plan after the last full-time employee retired in 2014; however, no such formal election was ever made or documentation, resolution or communication with the custodian available to support such election. Additionally, the commission entered an employment agreement with the individual, effective January 1, 2016, which designated a regular 40-hour work week, but specifically excluded medical/health insurance and a pension. However, the commission was unaware that the employment agreement was contradictory to the plan agreement which required mandatory membership for all employees not classified in Section 3.3 above.

Effect: The employee was denied benefits to which entitled under the plan agreement pursuant to Act 15.

Recommendation: We recommend that plan officials consult the plan’s custodian and take appropriate action to ensure that the employee is afforded the opportunity to participate in the pension plan and credited all benefits due in accordance with the plan’s governing document, accordingly, at their earliest opportunity to do so.

SOUTHERN POLICE COMMISSION NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: The commission provided the following response:

The Southern Police Commission has taken action to enroll the eligible employee in the pension plan with eligibility for all benefits due thereunder from the employee's date of full-time hire

Auditor's Conclusion: Based on the management response, it appears commission officials intend to comply with the finding recommendation. Compliance will be evaluated during the next audit of the plan.

SOUTHERN POLICE COMMISSION NON-UNIFORMED 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, 2017, 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)
01-01-17	\$ 99,477	\$ 97,511	\$ (1,966)	102.0%
01-01-19	96,415	93,324	(3,091)	103.3%
01-01-21	96,017	92,680	(3,337)	103.6%

SOUTHERN POLICE COMMISSION NON-UNIFORMED 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.

SOUTHERN POLICE COMMISSION NON-UNIFORMED 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	\$ 3,353	\$ 3,353	\$ -		
2013	2,735	2,735	-		
2014	2,885	2,974	(89)	\$ 49,372	6.02%
2015	4,037	4,037	-	6,282	64.26%
2016	-	-	-	-	0.00%
2017	-	-	-	-	0.00%
2018	-	-	-	-	0.00%
2019	-	-	-	-	0.00%
2020	-	-	-	-	0.00%
2021	-	-	-	-	0.00%

* 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.

Note: As of 2015, the pension plan did not have any active members.

SOUTHERN POLICE COMMISSION NON-UNIFORMED 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	Not available
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses
Projected salary increases *	4.1%
* Includes inflation at	2.2%
Cost-of-living adjustments	2.2% per year, subject to plan limitations

The information reported above was extracted from the Pennsylvania Municipal Retirement System Experience Study Results Report dated September 2020, which is the basis for the 01-01-2021 actuarial valuation. The report did not specify the actuarial or market value methodologies often contained in the Notes to Supplementary Schedules and will be added going forward when readily available.

SOUTHERN POLICE COMMISSION NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Mike Sharkey
Chairman, Board of Commissioners

Mr. James S. Boddington
Chief Administrative Officer/ Chief of Police

Ms. Gail Prego
Financial Administrator

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.