

# COMPLIANCE AUDIT

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## Columbia Borough Police Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

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August 2020



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

The Honorable Mayor and Borough Council  
Columbia Borough  
Lancaster County  
Columbia, PA 17512

We have conducted a compliance audit of the Columbia Borough Police Pension Plan for the period January 1, 2016 to December 31, 2019. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings 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 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 plan members who retired during the current audit period, and through the completion of our fieldwork procedures, 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, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, 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.
- 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.

Columbia Borough contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31 2016, 2017 and 2018, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Columbia Borough 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 objective.

The results of our procedures indicated that, in all significant respects, the Columbia Borough 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 – Ordinance Improperly Amended By Resolution

Finding No. 2 – Pension Benefit Not Authorized By The Plan's Governing Document

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 Columbia Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

August 18, 2020



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.

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

The Columbia Borough Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 909, as amended, and a separately executed plan agreement restated January 1, 2008 adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the borough and its police officers. The plan was established October 1, 1947. Active members were required to contribute 4 percent of compensation to the plan during 2016 and 2017, and 5 percent of compensation to the plan during 2018 and 2019. As of December 31, 2019, the plan had 19 active members, no terminated members eligible for vested benefits in the future, and 10 retirees receiving pension benefits.

COLUMBIA BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding No. 1 – Ordinance Improperly Amended By Resolution**

Condition: The pension plan’s governing document, Ordinance No. 909, was improperly amended by Resolution No. 20-06, which added a Deferred Retirement Option Pension (DROP).

Criteria: In Wynne v. Lower Merion Township, 181 Pa. Superior Ct., 524, the Pennsylvania Superior Court held that an ordinance may be amended only by another ordinance and not by a resolution.

Cause: Municipal officials were not aware that a resolution cannot amend an ordinance.

Effect: The failure to properly amend the plan’s governing document could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that the borough amend the plan’s governing document with a properly executed ordinance.

Management’s Response: Municipal officials agreed with the finding without exception.

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

**Finding No. 2 – Pension Benefit Not Authorized By The Plan’s Governing Document**

Condition: Municipal officials provided pension benefits in excess of those authorized by the pension plan’s governing document, Ordinance No. 909, and a separately executed plan agreement restated January 1, 2008. Plan officials included accumulated unused vacation leave in the determination of final average salary used to calculate the monthly pension benefit for the police officer who retired subsequent to the audit period and entered the plan’s Deferred Retirement Option Plan (DROP), even though the plan agreement specifically excludes this inclusion.

Criteria: Section 4.01 of the plan’s separately executed plan agreement, as amended, indicates a monthly benefit as follows:

An Active Participant’s monthly accrued benefit as of any date, subject to modifications below, will be equal to the product of (a) and (b), plus (c) below:

- (a) An amount equal to 50% of his Average Compensation.
- (b) His accrued Benefit Adjustment.
- (c) An amount equal to \$75 multiplied by his complete years of Accrual Service in excess of 25 on such date, not to exceed \$450.

COLUMBIA BOROUGH POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding No. 2 – (Continued)**

Average compensation is defined, in part, in Section 1.02 of the pension plan agreement as follows:

Compensation means the total earnings, except as modified in this definition, from the Employer during any specified period. Earnings as used in this definition includes salary, court pay, holiday pay, overtime pay and other remuneration with the following exclusions: unused sick pay and unused vacation pay. [Emphasis Added.]

Cause: There was a recent turnover of plan officials responsible for administering the pension plan and current officials were unaware of the exclusions contained in the plan's agreement.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by the plan's governing document. As of the date of this report, the retiree is receiving excess benefits of \$259 per month, which totaled approximately \$518 from the date of initial retirement through the date of this report.

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 borough 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.

Recommendation: We recommend that the pension benefit of any retiree whose benefit was not determined in accordance with the provisions of the plan's governing document be adjusted prospectively. 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 borough'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 borough'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 if effect at the time of a plan member's retirement.

Management's Response: Municipal officials agreed with the finding without exception.

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



COLUMBIA BOROUGH 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	\$ 6,205,753	\$ 7,300,037	\$ 1,094,284	85.0%
01-01-17	7,470,709	8,349,481	878,772	89.5%
01-01-19	8,687,186	9,868,986	1,181,800	88.0%

Note: The market values of the plan's assets at 01-01-15, 01-01-17 and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 to 120 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.

COLUMBIA BOROUGH 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.

COLUMBIA BOROUGH 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 *
2010	\$ 124,869	\$ 127,105	\$ (2,236)	\$1,247,095	9.98%
2011	244,341	257,936	(13,595)	1,207,990	21.35%
2012	250,717	250,717	-	1,304,752	19.22%
2013	260,757	260,757	-	1,328,434	19.63%
2014	276,813	276,813	-	1,395,281	19.84%
2015	422,567	422,567	-	1,393,785	30.32%
2016	363,375	363,375	-	1,397,034	26.01%
2017	363,683	363,683	-	1,436,590	25.32%
2018	358,875	361,439	(2,564)	1,531,939	23.59%
2019	376,491	376,491	-		

\* 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 timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

COLUMBIA BOROUGH 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	8 years
Asset valuation method	5-year smoothing, subject to a corridor between 80-120% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.5%
Cost-of-living adjustments	Active members as of January 1, 2015 will be eligible for cost-of-living increases in their pension annually after their retirement, based on increases in the CPI since their retirement, if approved by the Pension Board.

COLUMBIA BOROUGH POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**The Honorable Leo S. Lutz**  
Mayor

**Ms. Heather Zink**  
Council President

**Mr. Mark Stivers**  
Borough Manager

**Mr. Kyle Watts**  
Finance Manager

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