

COMPLIANCE AUDIT

Fallowfield Township Police Pension Plan Washington County, Pennsylvania For the Period January 1, 2020 to December 31, 2022

May 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Board of Township Supervisors
Fallowfield Township
Washington County
Charleroi, PA 15022

We have conducted a compliance audit of the Fallowfield Township Police Pension Plan for the period January 1, 2020 to December 31, 2022. 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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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:

- 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, 2021 and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2022 and 2024, 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 the terms of the plan's allocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contracts with the plan's provisions, investment policies, and state regulations.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for the transfers made during the audit period.

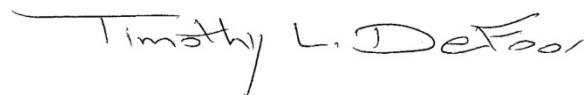
The township has elected to purchase an allocated insurance contract to fund a portion of a benefit for one member provided by the pension plan. Under an allocated funding arrangement, the insurer receives and retains consideration in exchange for a legally enforceable obligation to pay future benefits. In accordance with Statement No. 67 of the Governmental Accounting Standards Board, allocated insurance contracts are excluded from the pension plan's assets.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Fallowfield 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 Fallowfield Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 Fallowfield Township and, where appropriate, their responses have been included in the report. We would like to thank township 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 horizontal line above the first name.

Timothy L. DeFoor
Auditor General
April 4, 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 Fallowfield 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Fallowfield Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 142, as amended, adopted pursuant to Act 600. The plan was established February 13, 1970. On May 26, 2010, the Fallowfield Township Board of Supervisors adopted Ordinance No. 196, which effectively abolished, terminated and disbanded the former Fallowfield Township Police Department effective December 31, 2010; consequently, the plan no longer has any active plan members. As of December 31, 2022, the plan had two retirees receiving pension benefits.

FALLOWFIELD TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status of Prior Finding

As disclosed in the six most recent prior audit reports, the plan held an endowment policy for a police officer as of December 31, 2002, which was purchased prior to January 1, 1986. On January 15, 2003, the policy was inadvertently surrendered by a prior township official, without authorization from the Board of Supervisors, and the proceeds were used to purchase a flexible premium adjustable life insurance policy on the same police officer. On February 21, 2003, the police officer retired and began receiving a monthly pension benefit in accordance with Act 600. However, the plan maintained the life insurance policy (*in the name of the retired officer with the officer's spouse as the primary beneficiary*) which was contrary to Act 600 and 205. It was previously recommended in prior audits that the township cash surrender the flexible premium adjustable life insurance policy held for the retired police officer and deposit the proceeds into the police pension plan or as an alternative, the municipality could transfer the existing life insurance policy from the pension plan to the municipal general fund provided the pension plan was adequately compensated.

The Fallowfield Township Supervisors respectfully disagreed with the department's position alleging that the flexible premium life insurance policy was funded by the entire proceeds from the earlier insurance policy originally purchased during 1973. The township believed that it was entirely proper for the township to continue this policy established many years prior to January 1, 1986, as it was "grandfathered in" according to Auditor General Bulletin No. 2-85, issued in 1985, regarding the *Purchase of Life Insurance for Municipal Pension Plans*, which disallowed any further purchase of life insurance with pension funds after January 1, 1986, but did allow the continuance of existing policies. Pursuant to Auditor General Municipal Pension Bulletin No. 6-88, *Purchase of Insurance Coverage*, which was issued in 1988, its position changed and no longer could general municipal pension system state aid be used to pay life insurance. It was the township's position that no state monies were used to pay the life insurance premium from 1988-2003. When the original policy was terminated, its cash surrender value was the only premium paid into the current life insurance policy. Accordingly, the township did not believe it was non-compliant and should not have been required to cash in the life insurance policy and pay its surrender proceeds into the police pension plan.

Additionally, the township asserted that it no longer maintains an active police force, the plan is significantly overfunded, and the township no longer receives state aid on behalf of the police pension plan, and the surrender value of the life insurance policy in question, approximating \$83,343, when it is distributed as a death benefit, would not affect the plan's overfunded status.

FALLOWFIELD TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Further, the township is currently in a lawsuit with Lincoln Financial regarding this life insurance policy. At this point, the township is unable to surrender the policy since it required the approval and signature of *[name omitted]* to do that and this individual is unwilling to do so at this point. The township is hopeful that the litigation will be resolved and settled this year with the township getting a portion of this money back and will reach out to the department to discuss the terms of the settlement.

The department agrees to disagree on this issue. Given the township's position on this matter, the funding status of its police pension plan (*158.0% as of the 1-01-2023 valuation date*) and considering that the township did not receive or distribute any state aid attributable to the benefit provided through the insurance policy or gain any financial benefit from the maintenance or surrender of such policy, the finding will not be repeated in this audit report. The Department will, however, continue to monitor the effect of any subsequent disposition/surrender of the insurance policy on the township's future state aid allocations and impact on the funding status of its police pension plan during subsequent audits of the plan.

FALLOWFIELD 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	\$1,128,754	\$ 733,449	\$ (395,305)	153.9%
01-01-21	1,146,486	715,539	(430,947)	160.2%
01-01-23	1,083,990	685,884	(398,106)	158.0%

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses 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.

FALLOWFIELD 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.

FALLOWFIELD 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>
2013	\$ -	\$ -	\$ -	\$ -	N/A
2014	-	-	-	-	N/A
2015	-	-	-	-	N/A
2016	-	-	-	-	N/A
2017	-	-	-	-	N/A
2018	-	-	-	-	N/A
2019	-	-	-	-	N/A
2020	-	-	-	-	N/A
2021	-	-	-	-	N/A
2022	-	-	-	-	N/A

N/A – Not applicable. As noted in the Background section of this report, the township disbanded its police department in 2010 and consequently, the plan no longer has any active plan members.

FALLOWFIELD 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	Not applicable
Remaining amortization period	Not applicable
Asset valuation method	Method described in Act 205, Section 210(a) Asset corridor +/- 20%.
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	4.0%
Cost-of-living adjustments	2.25%

FALLOWFIELD 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. Bruce C. Smith
Chairman, Board of Township Supervisors

Mr. Joseph Sopcak
Vice-Chairman, Board of Township Supervisors

Mr. Earl P. Sadler
Township Supervisor

Ms. Karen L. Talbert
Secretary/Treasurer

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.