

COMPLIANCE AUDIT

Kline Township Police Pension Plan Schuylkill County, Pennsylvania For the Period January 1, 2020 to December 31, 2023

July 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**

Board of Township Supervisors
Kline Township
Schuylkill County
Kelayres, PA 18231

We have conducted a compliance audit of the Kline Township Police Pension Plan for the period January 1, 2020 to December 31, 2023. 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 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, January 1, 2021, and January 1, 2023 actuarial valuation reports were prepared and submitted by March 31, 2020, 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.

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

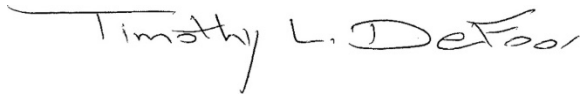
The results of our procedures indicated that, in all significant respects, the Kline Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Inconsistent Pension Benefits

Finding No. 2 – Failure To Timely Pay The Minimum Municipal Obligation Of The 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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates a decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 81.0% as of January 1, 2021, to a ratio of 63.1% as of January 1, 2023**, which is the most recent data available. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Kline 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 long horizontal line extending to the left of the first letter.

Timothy L. DeFoor
Auditor General
July 8, 2024

CONTENTS

	<u>Page</u>
Background.....	1
Findings and Recommendations:	
Finding No. 1 – Inconsistent Pension Benefits	2
Finding No. 2 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan	3
Supplementary Information	5
Report Distribution List	9

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 Kline 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 69 - The Second Class Township Code, Act of May 1, 1933 (P.L. 103, No. 69), as reenacted and amended, 53 P.S. § 65101 et seq.

The Kline Township Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of ordinance dates as of August 13, 1984, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established January 1, 1972. Active members are not required to contribute to the plan. As of December 31, 2023, the plan had one active member, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits from the plan.

KLINE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Inconsistent Pension Benefits

Condition: During the prior audit, a verbal observation was issued notifying the township of inconsistent benefit provisions between the plan’s governing document and the collective bargaining agreement between the police officer and the township. During the current audit period, no action was taken to address the inconsistencies. The inconsistencies between the pension plan’s governing document (an Ordinance dated August 13, 1984, as amended by Ordinance No. 03-14), and the collective bargaining agreement are as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Normal Retirement	A participant in the Police Pension Plan Fund may retire from active duty after a minimum period of total service in the aggregate of twenty-five (25) years and having attained the age of fifty-five (55) years, or, if an actuarial study of the cost shows that such reduction in age is feasible, may reduce the age of the members to fifty (50) years.	...an officer may retire with full pension after fifteen (15) years of service. The officer will be able to collect fifty (50%) of his yearly salary based on the three (3) highest years of the last five (5) years and after reaching age fifty-five (55).
Early Retirement	A Participant who has reached his sixtieth (60 th) birthday and has completed fifteen (15) or more years of aggregated service shall be eligible to retire on the first day of the month following his sixtieth (60 th) birthday. Benefits will be thirty-five (35) percent of the average monthly compensation over the last thirty-six (36) months of employment. Retirement after the age of sixty (60) but prior to the age of sixty-five (65) will mean benefits will be increased by one quarter (¼) of one (1) percent for each month the insured works past the age of sixty (60).	Not addressed.

KLINE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, the actuarial valuation report form type C, for the police pension plan, with a valuation date of January 1, 2023, submitted to the Municipal Pension Reporting Program, reported the benefit provisions included in the governing document.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure retirees receive the correct benefit payments and to ensure the sound administration of the pension plan.

Cause: Current plan officials were unaware of the prior audit verbal observation and failed to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management’s Response: Municipal officials agreed with the finding without exception and provided the following response:

Our solicitor has advised me that we cannot change it at this point until the current officer retires. He stated that in the past there was a threat of a grievance.

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

Finding No. 2 – Failure To Timely Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not timely pay the \$13,716 and \$17,403 minimum municipal obligations (MMOs) that were due to the police pension plan for the years 2022 and 2023, respectively, as required by Act 205. For the 2022 MMO, \$3,355 was deposited into the police pension plan on October 17, 2022; however, the remaining balance of \$10,361, representing the township’s 2022 state aid allocation, was not deposited into the plan until January 13, 2023. For the 2023 MMO, \$11,656 was deposited into the police pension plan on October 30, 2023, representing the township’s 2023 state aid allocation; however, the remaining MMO balance of \$5,747 was not deposited into the plan until May 13, 2024. In 2024, the township did calculate and deposit \$18 and \$19 for interest due on the late deposits for 2022 and 2023, respectively; however, the interest amounts were not calculated in accordance with Act 205 requirements.

KLINE TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: The township experienced a turnover in municipal officials responsible for administering the plan. In addition, there was a lack of formal, documented internal control procedures, such as management oversight of MMO payments, to ensure the timely payment of MMOs in accordance with Act 205.

Effect: The failure to timely pay the MMOs timely could result in the plan not having adequate resources to meet current and future benefit obligations to its members. In addition, the municipality must now calculate the deposit the correct amount of interest due on the late payments as prescribed by Act 205.

Recommendation: We recommend that the municipality calculate and pay the outstanding interest due to the police pension plan for the untimely payments of the 2022 and 2023 MMOs in accordance with Section 302(e) of Act 205. For the 2022 MMO, the period to utilize in calculating the interest due is January 1, 2022 until the date the payment was made, January 13, 2023. For the 2023 MMO, the period to utilize in calculating the interest due is January 1, 2023 until the date the payment was made, May 13, 2024. A copy of the interest calculations must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials establish and implement internal control procedures to ensure that future MMOs are paid timely in accordance with Act 205.

Management Response:

Municipal officials agreed with the finding without exception and indicated that new controls have been put in place to assist.

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

KLINE 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	\$ 198,439	\$ 246,290	\$ 47,851	80.6%
01-01-21	220,217	272,322	52,105	81.0%
01-01-23	241,845	383,346	141,501	63.1%

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 over a five-year averaging period. 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.

KLINE 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.

KLINE TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2018	\$ 18,735	236.8%
2019	18,758	100.0%
2020	16,465	100.0%
2021	13,681	100.0%
2022	13,716	100.0%
2023	17,403	100.0%

KLINE 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	Level dollar
Remaining amortization period	5 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	5.0%

KLINE 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. Matthew Corra
Chairman, Board of Township Supervisors

Mr. Gary J. Perna, Jr.
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.