

# COMPLIANCE AUDIT

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## Slate Belt Regional Police Pension Plan Northampton County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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September 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Slate Belt Regional Police Commission  
Northampton County  
Nazareth, PA 18064

We have conducted a compliance audit of the Slate Belt Regional Police Pension Plan for the period January 1, 2014 to December 31, 2017. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 all 4 of the plan members who retired during the current audit 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for all 3 of the plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.
- We determined whether transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Slate Belt Regional Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the regional's internal controls as they relate to the regional's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials 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 Slate Belt Regional 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 – Plan Document Not Adopted By Ordinance/Resolution
- Finding No. 2 – Failure To Provide A Survivor Benefit In Accordance With Act 600 Provisions
- Finding No. 3 – Failure To Appoint a Chief Administrative Officer

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 Slate Belt Regional Police Department and, where appropriate, their responses have been included in the report. We would like to thank regional officials for the cooperation extended to us during the conduct of the audit.

August 24, 2018

  
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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Slate Belt Regional Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission 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 Slate Belt Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a plan document amended and restated on September 10, 2014. The plan is also affected by the provisions of collective bargaining agreements between the regional and its police officers. The plan was established September 10, 2014. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2017, the plan had 20 active members, 4 terminated members eligible for vested benefits in the future, and 14 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service (for former members of Plainfield Township or Pen Argyl Borough)
	Age 55 and 25 years of service (for former members of Wind Gap Borough or an officer hired after 9/10/14)
Early Retirement	After 20 years of service (for former members of Plainfield Township or Pen Argyl Borough)
	None (for former members of Wind Gap Borough or an officer hired after 9/10/14)
Vesting	Member is 100% vested after 12 years of service

### Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$100 per month. (For former members of Plainfield Township or Pen Argyl Borough)

Benefit equals 50% of final 36 months average salary. (For former members of Wind Gap Borough or an officer hired after 9/10/14)

### Survivor Benefit:

Before Retirement Eligibility    Refund of member contributions plus interest.

After Retirement Eligibility    None

### Service Related Disability Benefit:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

Benefit equals 75% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury. (For former members of Pen Argyl Borough and hired prior to March 16, 2011)

SLATE BELT REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Plan Document Not Adopted By Ordinance/Resolution**

Condition: The terms, provisions and conditions of the police pension plan were stated in a separately executed plan agreement titled Slate Belt Regional Police Pension Plan Amended and Restated September 10, 2014. However, the plan agreement has not been formally adopted by a properly executed ordinance or resolution.

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

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund. . . .

Cause: Plan officials were unaware that the township should formally adopt the provisions of the restated plan agreement through a properly executed ordinance or resolution.

Effect: The failure to properly adopt the plan agreement could result in improper or inconsistent benefit payments to plan members and their beneficiaries.

Recommendation: We recommend that municipal officials take appropriate action to formally adopt the plan document through a properly executed ordinance or resolution.

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.



SLATE BELT REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Failure To Provide A Survivor Benefit In Accordance With Act 600 Provisions**

Condition: Commission officials failed to include a provision for a surviving spouse benefit in accordance with Act 600 in the separately executed plan agreement of the regional police pension plan.

Criteria: The police pension plan’s benefit structure should be in compliance with Act 600, as amended. Section 1(a)(4) of Act 600 states:

The surviving spouse of a member of the police force or a member who retires on pension who dies or if no spouse survives or if he or she survives and subsequently dies, then the child or children under the age of eighteen years or, if attending college, under or attaining the age of twenty-three years, of a member of the police force or a member who retires on pension who dies shall during her lifetime in the case of a surviving spouse or until reaching the age of eighteen years or if attending college, under or attaining the age of twenty-three years, in the case of a child or children, be entitled to receive a pension calculated at no less than fifty per centum of the pension the member was receiving or would have been receiving had he been retired at the time of his death.

Cause: Plan officials were unaware that the plan’s governing document did not contain a provision for a surviving spouse benefit.

Effect: Police officers’ surviving spouses will not receive the pension benefits due pursuant to Act 600 provisions.

Recommendation: We recommend that plan officials, along with their solicitor, amend their governing document as soon as possible to include the survivor’s benefit required by Act 600 at their earliest opportunity to do so.

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.

SLATE BELT REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – Failure To Appoint A Chief Administrative Officer**

Condition: Commission 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 council 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.”

Commission officials may appoint two CAOs - one for the pension plan and one for the municipality or appoint one person to fill both positions. Act 205 identifies specific duties for each position, as follows:

CAO of the Municipality

- Supervise and direct the preparation of actuarial reports (Section 201(d));
- Certify and file actuarial valuation reports with the Public Employee Retirement Commission (Section 201(b)); and
- Make actuarial report information available to plan members (Section 201(e)).

CAO of the Pension Plan

- Annually, determine and submit to the governing body of the municipality 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 municipality 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 delayed and investment opportunities being lost.

SLATE BELT REGIONAL POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 3 – (Continued)**

Recommendation: Because of the significance of the CAO's responsibilities to the municipality and 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: Municipal officials agreed with the finding without exception.

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

SLATE BELT 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, 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	\$ 4,621,584	\$ 4,732,664	\$ 111,080	97.7%
01-01-17	5,028,613	6,331,189	1,302,576	79.4%

The Department typically presents this data as of the plan’s actuarial valuation dates for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

The Actuarial Accrued Liability as of 01-01-17 reflects increases in the unfunded actuarial accrued liability due to changes in actuarial assumptions. In addition the plan had an actuarial loss for the previous two year period. The actuarial loss is primarily caused by several disability retirements during the two year period.

SLATE BELT 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.

SLATE BELT 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
2015	\$ 219,653	100.0%
2016	178,689	108.1%
2017	183,392	100.0%

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

SLATE BELT 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	Level dollar
Remaining amortization period	18 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	3.0%

SLATE BELT 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. Mikal Sabatine**  
Chairman, Slate Belt Regional Police Commission

**Mr. David Hess**  
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**Mr. Stephen Hurni**  
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**Mr. Mitch Mogilski**  
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**Ms. Jane Mellert**  
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**Chief David A. Mettin**  
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