

COMPLIANCE AUDIT

Susquehanna Regional Police Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

October 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Susquehanna Regional Police Commission
Lancaster County
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We have conducted a compliance audit of the Susquehanna Regional Police Pension Plan for the period January 1, 2015 to December 31, 2018. 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if regional police commission officials took appropriate corrective action to address the finding contained in our prior audit 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 regional police commission officials took appropriate corrective action to address the finding contained in our prior audit 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 regional'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 three 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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 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.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Susquehanna 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Susquehanna 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 finding further discussed later in this report:

Finding – Incorrect Data On Certification Form AG 385 Resulting In An
Overpayment Of State Aid

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

October 16, 2019



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 Susquehanna 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 Susquehanna Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 001-2014, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the regional police commission and its police officers. The plan was established January 1, 1982. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions were eliminated during the audit period for members hired prior to January 1, 2014. As of December 31, 2018, the plan had 15 active members, no terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 50 and 25 years of service.

Early Retirement 20 years of service.

Vesting 100% after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$20 per month for each year of service in excess of 25 years, up to a maximum of \$100 per month.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

After Retirement Eligibility A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

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

SUSQUEHANNA REGIONAL POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Rescission Of Prior Audit Recommendation

· Restated Plan Document Not Adopted By Ordinance

Based on discussions with plan officials and further review of plan documentation, the prior audit recommendation has been rescinded by the Department.

SUSQUEHANNA REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The regional police commission certified 1 ineligible police officer (2 units) and overstated payroll by \$49,008 on the Certification Form AG 385 filed in 2018. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months prior to December 31 preceding the date of certification and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the regional for distribution to its pension plans. Because the regional’s state aid allocation was based on unit value, the incorrect certification of pension data affected the regional’s state aid allocation, as identified below:

Year	Unit Overstated	Unit Value	State Aid Overpayment
2018	2	\$ 4,684	\$ 9,368

In addition, the regional police commission used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the overpayment of state aid in the amount of \$9,368 be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

SUSQUEHANNA REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

SUSQUEHANNA REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 6 through 8 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 174,703	\$ 186,941	\$ 196,288	\$ 175,625	\$ 184,406
Interest	272,501	305,664	334,465	365,041	390,209
Difference between expected and actual experience	-	(3,424)	-	54,963	-
Changes of assumptions	-	86,184	-	12,053	-
Benefit payments, including refunds of member contributions	<u>(113,165)</u>	<u>(115,408)</u>	<u>(145,245)</u>	<u>(219,900)</u>	<u>(229,505)</u>
Net Change in Total Pension Liability	334,039	459,957	385,508	387,782	345,110
Total Pension Liability – Beginning	<u>3,398,016</u>	<u>3,732,055</u>	<u>4,192,012</u>	<u>4,577,520</u>	<u>4,965,302</u>
Total Pension Liability – Ending (a)	<u><u>\$ 3,732,055</u></u>	<u><u>\$ 4,192,012</u></u>	<u><u>\$ 4,577,520</u></u>	<u><u>\$ 4,965,302</u></u>	<u><u>\$ 5,310,412</u></u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 92,252	\$ 92,820	\$ 70,456	\$ 86,033	\$ 125,143
Contributions – state aid	116,180	117,625	139,989	146,824	123,664
Contributions – member	-	1,856	3,357	4,761	41,549
Net investment income	173,041	(47,827)	235,367	606,967	(309,274)
Benefit payments, including refunds of member contributions	(113,165)	(115,408)	(145,245)	(219,900)	(229,505)
Administrative expense	<u>(5,750)</u>	<u>(6,250)</u>	<u>(6,250)</u>	<u>(7,165)</u>	<u>(6,500)</u>
Net Change in Plan Fiduciary Net Position	262,558	42,816	297,674	617,520	(254,923)
Plan Fiduciary Net Position – Beginning	<u>3,367,740</u>	<u>3,630,298</u>	<u>3,673,114</u>	<u>3,970,788</u>	<u>4,588,308</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 3,630,298</u></u>	<u><u>\$ 3,673,114</u></u>	<u><u>\$ 3,970,788</u></u>	<u><u>\$ 4,588,308</u></u>	<u><u>\$ 4,333,385</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 101,757</u></u>	<u><u>\$ 518,898</u></u>	<u><u>\$ 606,732</u></u>	<u><u>\$ 376,994</u></u>	<u><u>\$ 977,027</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.3%	87.6%	86.7%	92.4%	81.6%
Covered Employee Payroll	\$ 983,078	\$ 947,181	\$ 980,895	\$ 1,120,054	\$ 1,146,489
Net Pension Liability as a Percentage of Covered Employee Payroll	10.4%	54.8%	61.9%	33.7%	85.2%

SUSQUEHANNA REGIONAL POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

Sensitivity Of The Net Pension Liability To Changes In The Discount Rate

The following presents the net pension liability of the regional as of December 31, 2015, 2016, 2017, and 2018, calculated using the discount rate of 7.75%, as well as what the regional police commission's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
Net Pension Liability – 12/31/15	\$ 1,092,672	\$ 518,898	\$ 38,517
Net Pension Liability – 12/31/16	\$ 1,230,826	\$ 606,732	\$ 83,873
Net Pension Liability – 12/31/17	\$ 1,037,763	\$ 376,994	\$ (174,841)
Net Pension Liability – 12/31/18	\$ 1,684,077	\$ 977,027	\$ 385,967

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
2009	\$ 108,560	\$ 108,560	\$ -	\$ 790,808	13.7%
2010	178,965	195,805	(16,840)	919,850	21.3%
2011	166,421	200,000	(33,579)	841,205	23.8%
2012	176,566	167,624	8,942	1,049,030	16.0%
2013	167,624	177,665	(10,041)	993,348	17.9%
2014	208,432	208,432	-	983,078	21.2%
2015	202,189	210,445	(8,256)	947,181	22.2%
2016	210,445	210,445	-	980,895	21.5%
2017	232,857	232,857	-	1,120,054	20.8%
2018	248,807	248,807	-	1,146,489	21.7%

SUSQUEHANNA REGIONAL POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2018	(6.90%)
2017	15.76%
2016	6.55%
2015	(1.33%)
2014	5.22%

SUSQUEHANNA 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, 2013, 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)
01-01-13	\$ 2,798,629	\$ 3,094,235	\$ 295,606	90.4%
01-01-15	3,553,377	3,814,815	261,438	93.1%
01-01-17	4,201,061	4,644,536	443,475	90.5%

Note: The market values of the plan’s assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair 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.

SUSQUEHANNA 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.

SUSQUEHANNA 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	13 years
Asset valuation method	5-year smoothing – the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.00%
Cost-of-living adjustments	Related to Consumer Price Index (up to 3% annually) with an overall benefit limit of 130% of the normal retirement benefit.

SUSQUEHANNA 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. John Murphy
Chairman, Regional Police Commission

Ms. Gina Mariani
Regional Police Commissioner

Mr. Harold Kullman
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Mr. Charles E. Haugh
Chief Administrative Officer

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