

COMPLIANCE AUDIT

Warrington Township Police Pension Plan Bucks County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

July 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
Warrington Township
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Warrington, PA 18976

We have conducted a compliance audit of the Warrington Township 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and 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 findings 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- 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 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.

Warrington Township 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 township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Warrington 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 Warrington 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 – Partial Compliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600

The findings contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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 Warrington Township and, where appropriate, their responses have been included in the report.

July 20, 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 Warrington 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 Warrington Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2007-O-04, adopted pursuant to Act 600. 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, 1973. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2019, the plan had 33 active members, no terminated members eligible for vested benefits in the future, and 15 retirees receiving pension benefits from the plan.

WARRINGTON TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Recommendations

Warrington Township has complied with the prior recommendations concerning the following:

- Unauthorized Provision For A Killed In Service Benefit

Municipal officials eliminated the killed in service benefit from the plan's governing document; and

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

During the current audit period, the township reimbursed \$36,009 to the Commonwealth for the overpayment of state aid received in 2015 and 2016. In addition, municipal officials accurately reported the required pension data for the police pension plan on the Certification Forms AG 385 filed during the audit period.

Partial Compliance With Prior Audit Recommendation

Warrington Township has partially complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Inconsistent And Unauthorized Pension Benefits

The township continues to pay excess benefits to a police officer who retired December 31, 2005. Through the date of this audit report, the retiree is receiving excess benefits of \$1,435 per month, which have totaled approximately \$251,125 from his date of retirement through the date of this report. These benefits are being paid pursuant to provisions contained in the plan's governing document and the collective bargaining agreement between the township and its police officers, which provided this police officer a normal retirement benefit at age 55 with 20 years of service. However, Act 600 requires at least 25 years of service in order to be eligible for a normal retirement benefit. Since the township received its state aid allocations for the years 2006 through 2019 based on unit value, the township did not receive excess state aid attributable to the excess benefits provided. The Department will continue to monitor the effect of the excess benefits being paid to this retired police officer during future audits of the plan.

During the current audit period, municipal officials passed Ordinance No. 2017-O-12 to bring the vested benefit determination and service increment benefit provisions into compliance with Act 600; however, the plan's governing document and collective bargaining agreement continue to contain inconsistent and unauthorized benefit provisions as disclosed in Finding No. 1 contained in this report.

WARRINGTON TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Recommendation

Warrington Township has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefit Not Authorized By Act 600

WARRINGTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Partial Compliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefits

Condition: As disclosed in the prior five audit reports, the pension plan’s governing document and the collective bargaining agreement (CBA) between the township and its police officers contain benefit provisions that are not consistent and are not authorized by Act 600. As disclosed in the Status of Prior Finding section of this report, municipal officials passed Ordinance No. 2017-O-12 to bring certain provisions into compliance with Act 600. The township also adopted a CBA for the period January 1, 2020 to December 31, 2023; however, the plan’s governing document and the CBA continue to contain benefit provisions that are not authorized by Act 600, as follows:

Benefit Provision	Ordinance No. 2007-O-04, as amended	Collective Bargaining Agreement 2020-2023	Act 600
Survivor’s benefit - vested member	The spouse of any police officer who dies prior to Normal Retirement will receive an immediate benefit equal to 50% of the accrued benefit the police officer would have been receiving had he been retired at the time of death. Such benefit is payable until the spouse’s death or if the spouse dies, the benefit is split among children under age 18 or if attending college, under or attaining the age of 23. [Emphasis added]	Upon the death of an active police employee whether prior to or after retirement, the surviving spouse will receive a monthly pension benefit commencing on the first day of the month next following the date on which the active police employee’s death occurred. [Emphasis added]	Benefit payments commence on what would have been the officer’s normal retirement date.

WARRINGTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

<u>Benefit Provision</u>	<u>Ordinance No. 2007-O-04, as amended</u>	<u>Collective Bargaining Agreement 2020-2023</u>	<u>Act 600</u>
Service-related disability	Any police officer who, through a service related disease or injury becomes permanently disabled from performing the duties of a police officer shall be paid fifty percent (50%) of the police officer’s salary at the time the disability incurred. This benefit is not to be offset by any Social Security Act benefits received by the police officer for the same injuries. [Emphasis added]	The active police employee who is eligible for disability retirement benefits shall be paid an amount which represents a fifty percent (50%) portion of his or her actual monthly earnings paid over a period of his last thirty six (36) months immediately preceding retirement or the onset of the disability, with no offset for Social Security disability payments. [Emphasis added]	A benefit in conformity with a uniform scale and fixed by the plan’s governing document, but at least 50% of the member’s salary at the time of disability, provided that if the member receives Social Security benefits for the same injury, his disability benefit is reduced by the amount of the Social Security benefit. [Emphasis added]

In addition, the plan’s governing document and the CBA contain inconsistent provisions for the normal retirement date for new hires; however, both provisions are within the constraints of Act 600, as noted below:

<u>Benefit Provision</u>	<u>Ordinance No. 2007-O-04, as amended</u>	<u>Collective Bargaining Agreement 2020-2023</u>	<u>Act 600</u>
Normal retirement date	The normal retirement date shall be the fiftieth (50th) birthday and the completion of twenty-five (25) years of service, if later. [Emphasis added]	Attains the age of fifty-three (53) years and has accumulated twenty-five (25) years of service if hired on or after January 1, 2016. [Emphasis added]	A normal retirement age of 55, or of 50, if supported by an actuarial cost study.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600.

WARRINGTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Cause: Plan officials failed to ensure full compliance with the prior audit recommendation.

Effect: During a prior audit period, pursuant to the plan’s governing document and the CBA, the township granted an excess pension benefit to the surviving spouse of a police officer who died on November 6, 2009, with 19 years of credited service. The surviving spouse was granted an immediate benefit of \$1,326 per month; however, the pension benefit should not have commenced until July of 2015, which would have been the deceased member’s normal retirement date. Consequently, the surviving spouse received excess benefits totaling approximately \$90,168 through July of 2015.

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 township 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 again recommend that the township take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions that are in compliance with Act 600 at its earliest opportunity to do so. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to existing retirees in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan’s actuary may have to determine the impact, if any, of the unauthorized benefits on the plan’s future state aid allocations and submit this information to the Department.

Management’s Response: This is a repeat finding from prior audits. As recommended, we will strive to have the collective bargaining agreement (CBA) and the governing document for the pension plan (pension ordinance) be consistent and in compliance with Act 600. The Township’s legal counsel has addressed this issue with the bargaining unit attorney. In the CBA, the preamble to ARTICLE 19 PENSION AND RETIREMENT PLAN states “The parties, through their legal counsel, shall review pension and retirement plan to ensure that all provisions comply with Act 600.”

Auditor’s Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

WARRINGTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Pension Benefit Not Authorized By Act 600

Condition: As disclosed in the prior three audit reports, the pension plan’s governing document grants a benefit that is not authorized by Act 600. Section 705A of Ordinance No. 2007-O-04 states, in part:

A police officer who shall have attained his Normal Retirement Date shall upon application, be entitled to a monthly pension computed by averaging the officer’s final thirty-six (36) months of compensation. The monthly amount of such pension shall equal fifty percent (50%) of the thirty-six (36) months of compensation averaged.

Section 701 of Ordinance No. 2007-O-04 further defines compensation as:

A member’s total monthly pay, including overtime pay, longevity increments, any pre-tax contributions made to the Plan pursuant to Code Sections 414 (h) or 125, and any other direct monetary compensation, but excluding reimbursement expenses or payments made in lieu of expenses, non-salary compensation (fringe benefits), or any other non-salary payments or allowances (including, but not limited to, uniform allowances).

Municipal officials included lump-sum payments for accumulated unused compensatory time and vacation time that was not earned during the pension computation period in the determination of the final average salary used to calculate monthly pension benefits for three police officers who retired under the township’s Deferred Retirement Option Plan (DROP) during prior audit periods on March 1, 2009, June 28, 2009, and July 1, 2015.

Criteria: Section 5(c) of Act 600 states, in part:

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

Although Act 600 does not define “salary,” the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum payments for leave or compensatory time that was not earned during the pension computation period.

Cause: Plan officials failed to ensure compliance with the prior audit recommendation.

WARRINGTON TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The plan is paying pension benefits to three retirees in excess of those authorized by Act 600 and the plan's governing document. As of the date of this report, the three retirees are receiving total excess benefits of \$833 per month, which totaled approximately \$106,694 from the respective dates of the members' retirements through the date of this audit 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 township received state aid based on unit value for its pension plans 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 again recommend that plan officials review the definition of compensation contained in the plan's governing document to ensure it complies with Act 600. To the extent that the township has already obligated itself to pay benefits in excess of those authorized by Act 600, 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 township's future state aid allocations and submit this information to the Department.

Management's Response: This is a repeat finding from prior audits. As recommended, we will review the definition of compensation in the plan's governing document to ensure it complies with Act 600.

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

WARRINGTON 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, 2015, is as follows:

	(1)	(2)	(3)	(4)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-15	\$ 12,108,777	\$ 14,288,618	\$ 2,179,841	84.7%
01-01-17	13,609,650	16,839,833	3,230,183	80.8%
01-01-19	16,479,652	20,003,174	3,523,522	82.4%

Note: The market value of the plan's assets at 01-01-19 has 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.

WARRINGTON 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.

WARRINGTON TOWNSHIP 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
2014	\$ 675,622	\$ 675,622	\$ -	\$2,630,522	25.68%
2015	762,752	762,752	-	2,808,968	27.15%
2016	748,774	748,774	-	2,990,098	25.04%
2017	769,228	769,228	-	3,097,081	24.84%
2018	787,932	787,932	-	3,438,829	22.91%
2019	1,060,318	1,060,318	-		

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

WARRINGTON 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	7 years
Asset valuation method	Fair value, 5-year smoothing
Actuarial assumptions:	
Investment rate of return	7.1%
Projected salary increases	4.5%
Cost-of-living adjustments	3.0% per annum

WARRINGTON TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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