

COMPLIANCE AUDIT

York Area United Fire and Rescue Union Defined Benefit Pension Plan

York County, Pennsylvania
For the Period
January 1, 2015 to December 31, 2018

February 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Board of Commissioners
York Area United Fire and Rescue
York County
York, PA 17402

We have conducted a compliance audit of the York Area United Fire and Rescue Union Defined Benefit 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 both 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 benefits 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 three 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 benefits 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.

York Area United Fire and Rescue contracted with an independent certified public accounting firm for annual audits its basic financial statements which are available at the commission's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the York Area United Fire and Rescue Union Defined Benefit 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 commission's internal controls as they relate to the commission'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 York Area United Fire and Rescue Union Defined Benefit 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 York Area United Fire and Rescue 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.

January 27, 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. 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 York Area United Fire and Rescue Union Defined Benefit 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.

The York Area United Fire and Rescue (YAUFR) was formed from the consolidation of the Spring Garden Township and Springettsbury Township fire departments. Former Springettsbury Township firefighters are now members of the YAUFR Union Defined Benefit Pension Plan. The plan is not open to new members. The plan was transferred from Springettsbury Township effective January 1, 2011.

The YUAFR Union Defined Benefit Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2011-03, as amended. The plan is also affected by the provisions of collective bargaining agreements between the commission and its firefighters. The plan was established April 29, 2010. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 9 active members, 4 terminated members eligible for vested benefits in the future, and 10 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 55 and 25 years of service.
Early Retirement	None
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

A monthly benefit equal to 50% of average monthly pay based on last 36 months of employment.

Survivor Benefit:

If retired, a monthly benefit equal to 50% of benefit to spouse. If active, a monthly benefit equal to 50% of the accrued benefit to surviving spouse at the time of death, but no less than the member's prior ICMA account plus accumulated contributions.

Service Related Disability Benefit:

Based on normal retirement formula, offset by any Social Security disability payments.

YORK AREA UNITED FIRE AND RESCUE UNION DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 5 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 YEAR ENDED DECEMBER 31, 2015, 2016, 2017, AND 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability				
Service cost	\$ 174,422	\$ 183,143	\$ 154,871	\$ 162,615
Interest	339,255	358,262	371,914	390,974
Difference between expected and actual experience	-	-	(240,567)	-
Changes of assumptions	-	-	185,865	-
Benefit payments, including refunds of member contributions	(191,033)	(268,956)	(227,822)	(254,780)
Net Change in Total Pension Liability	<u>322,644</u>	<u>272,449</u>	<u>244,261</u>	<u>298,809</u>
Total Pension Liability - Beginning	5,140,408	5,463,052	5,735,501	5,979,762
Total Pension Liability - Ending (a)	<u><u>\$ 5,463,052</u></u>	<u><u>\$ 5,735,501</u></u>	<u><u>\$ 5,979,762</u></u>	<u><u>\$ 6,278,571</u></u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 255,366	\$ 263,647	\$ 241,816	\$ 255,894
Contributions - member	50,197	45,851	43,421	36,049
Net investment income	(125,508)	216,526	614,805	(330,058)
Benefit payments, including refunds of member contributions	(191,033)	(268,956)	(227,822)	(254,780)
Administrative expense	(4,320)	(4,290)	(6,150)	(3,750)
Net Change in Plan Fiduciary Net Position	<u>(15,298)</u>	<u>252,778</u>	<u>666,070</u>	<u>(296,645)</u>
Plan Fiduciary Net Position - Beginning	4,559,632	4,544,334	4,797,112	5,463,182
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 4,544,334</u></u>	<u><u>\$ 4,797,112</u></u>	<u><u>\$ 5,463,182</u></u>	<u><u>\$ 5,166,537</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 918,718</u></u>	<u><u>\$ 938,389</u></u>	<u><u>\$ 516,580</u></u>	<u><u>\$ 1,112,034</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.18%	83.64%	91.36%	82.29%
Estimated Covered Employee Payroll	\$ 998,594	\$ 874,933	\$ 826,512	\$ 689,073
Net Pension Liability as a Percentage of Covered Employee Payroll	92.00%	107.25%	62.50%	161.38%

YORK AREA UNITED FIRE AND RESCUE UNION DEFINED BENEFIT 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 commission as of December 31, 2015, 2016, 2017, and 2018, calculated using the discount rate of 6.50%, as well as what the 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 (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Net Pension Liability - 12/31/15	\$ 1,620,169	\$ 918,718	\$ 333,295
Net Pension Liability - 12/31/16	\$ 1,671,735	\$ 938,389	\$ 325,944
Net Pension Liability - 12/31/17	\$ 1,276,172	\$ 516,580	\$ (115,982)
Net Pension Liability - 12/31/18	\$ 1,898,223	\$ 1,112,034	\$ 456,637

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	\$ 198,134	\$ 198,134	\$ -		
2010	203,026	203,026	-		
2011	271,803	271,803	-		
2012	213,118	213,118	-		
2013	223,870	223,870	-		
2014	220,949	220,949	-		
2015	255,366	255,366	-	\$ 998,594	25.57%
2016	263,647	263,647	-	874,933	30.13%
2017	241,816	241,816	-	826,512	29.26%
2018	255,894	255,894	-	689,073	37.14%

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2015.

YORK AREA UNITED FIRE AND RESCUE UNION DEFINED BENEFIT PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.4)%
2017	13.8%
2016	5.6%
2015	(2.0)%
2014	4.5%
2013	10.0%
2012	8.9%
2011	2.3%
2010	9.3%
2009	16.8%

YORK AREA UNITED FIRE AND RESCUE UNION DEFINED BENEFIT 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	\$ 3,897,390	\$ 4,655,848	\$ 758,458	83.7%
01-01-15	4,559,632	5,140,408	580,776	88.7%
01-01-17	4,797,112	5,680,799	883,687	84.4%

YORK AREA UNITED FIRE AND RESCUE UNION DEFINED BENEFIT 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.

YORK AREA UNITED FIRE AND RESCUE UNION DEFINED BENEFIT 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	Market value
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	5.0%

YORK AREA UNITED FIRE AND RESCUE UNION DEFINED BENEFIT PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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