

COMPLIANCE AUDIT

Plumstead Township Police Pension Plan

Bucks County, Pennsylvania
For the Period
January 1, 2019 to December 31, 2023

July 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
Plumstead Township
Bucks County
Pipersville, PA 18947

We have conducted a compliance audit of the Plumstead Township Police Pension Plan for the period January 1, 2019 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 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 plan members who retired and the plan member who elected to vest 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 or payable to the recipients.
- 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.
- 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.

Plumstead Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2019, 2020, 2021, and 2022, 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 Plumstead 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.

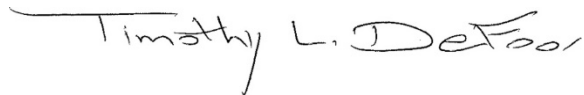
The results of our procedures indicated that, in all significant respects, the Plumstead Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings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

Finding No. 1 – Incorrect Pension Benefit Calculations

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A
Net Underpayment 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 Plumstead Township and, where appropriate, their responses have been included in the report.

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
June 13, 2024

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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 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 Plumstead 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 Plumstead Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2007-05, as amended, 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, 1974. Active members are required to contribute 5 percent of salary to the plan; however, member contributions are currently reduced to 3.5 percent for this audit period. As of December 31, 2023, the plan had 14 active members, 1 terminated member eligible for vested benefits in the future, and 9 retirees receiving pension benefits from the plan.

PLUMSTEAD TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Pension Benefit Calculations

Condition: The pension benefits for three members of the pension plan who entered the township’s Deferred Retirement Option Plan (DROP) on February 1, 2021, March 1, 2021, and August 1, 2022, respectively, were incorrectly determined because municipal officials failed to accurately calculate the members’ final monthly average salary in accordance with the plan’s governing document. In addition, the pension benefit for a member of the plan who elected to vest on September 30, 2023, was incorrectly determined because municipal officials failed to accurately calculate the member’s final monthly average salary in accordance with the plan’s governing document. Municipal officials included lump-sum payments for unused vacation or sick time in the pension calculations.

Criteria: Section 1-604.2, of the plan’s governing document, Ordinance No. 2007-05, states, in part:

For the purposes of computing the average monthly salary under this Section and 1-605.2. (Disability Retirement), the term “salary” shall mean and include the following: regular base pay or base salary, longevity salary, overtime pay for overtime worked in the line of duty, holiday shift pay, call-back pay, and court appearance pay for a court appearance in the line of duty but while off duty, and education pay. **However, one-time lump-sum payments for accrued but unused leave time, such as remuneration for unused vacation days or sick time, shall not be counted as “salary” and shall not be used in making the computation,** nor shall any member contributions required under Section 603.2., above, be withheld from such sums. (Emphasis added.)

Effect: The plan is paying pension benefits to three retirees in excess of those authorized by the plan’s governing document in the amounts of \$103, \$260, and \$376 per month, respectively. In addition, the failure to determine benefits in accordance with provisions in the governing document could result in the vested member receiving future excess pension benefits of \$39 per month.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefits were properly determined in accordance with the plan’s governing document.

Recommendation: We recommend that municipal officials adjust the retirees’ and vested member’s pension benefits in accordance with the provisions contained in the plan’s governing document.

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.

PLUMSTEAD TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid

Condition: The township certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$24,638 on the Certification Form AG 385 filed in 2022. In addition, the township failed to certify one eligible police officer (2 units) and understated payroll by \$88,546 on the Certification Form AG 385 filed in 2023. The eligible police officer retired effective July 31, 2022, and entered the township’s Deferred Retirement Option Program (DROP). The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification. The applicable number of units attributable to each eligible recipient city, borough, incorporated town, and township shall be two units for each police officer and firefighter and one unit for each employee other than police officer or firefighter.

Cause: The certification of the non-uniformed employee, who terminated employment in 2021 prior to working six consecutive months, was attributable to an oversight and the township lacked adequate internal control procedures to timely identify the oversight prior to submission of the certified data. In addition, township officials were unaware that the DROP participant was eligible for certification on the Certification Form AG 385 filed in 2023 since they were employed on a full-time basis for at least six consecutive months in 2022 prior to retirement.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocations were based on unit value, the township received a net underpayment as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Units Overstated (Understated)</u>	<u>Unit Value</u>	<u>State Aid Overpayment (Underpayment)</u>
2022	Non-Uniformed	1	\$5,180	\$ 5,180
2023	Police	(2)	\$5,828	<u>(11,656)</u>
Net Underpayment of State Aid				<u>\$ (6,476)</u>

PLUMSTEAD TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Although the additional state aid will be allocated to the township, the full amount of the 2023 state aid allocation was not available to be deposited timely and therefore was not available to fund benefits, pay operating expenses, or for investment.

Recommendation: We 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.

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.

PLUMSTEAD 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	\$ 7,919,938	\$ 9,302,436	\$ 1,382,498	85.1%
01-01-21	10,876,009	10,540,051	(335,958)	103.2%
01-01-23	10,687,065	11,597,874	910,809	92.1%

PLUMSTEAD 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.

PLUMSTEAD TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 284,681	\$ 284,681	\$ -	\$1,418,564	20.07%
2015	282,944	282,944	-	1,530,052	18.49%
2016	282,362	282,362	-	1,649,834	17.11%
2017	280,152	280,152	-	1,667,126	16.80%
2018	284,904	284,904	-	1,663,398	17.13%
2019	360,073	360,073	-	1,735,538	20.75%
2020	376,660	376,660	-	1,872,616	20.11%
2021	470,539	470,539	-	1,725,610	27.27%
2022	129,091	129,091	-	1,670,066	7.73%
2023	120,226	120,226	-	*	

* Due to the timing of this audit, covered-employee payroll for 2023 was not provided in this schedule.

PLUMSTEAD 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	11 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.75%
Projected salary increases	4.50%
Cost-of-living adjustments	None assumed

PLUMSTEAD 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. Jim McComb
Chairman, Board of Township Supervisors

Mr. Dan Hilferty
Vice Chairman, Board of Township Supervisors

Mr. Ken Lichtenstein
Township Supervisor

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Mr. Matt Given
Township Supervisor/Assistant Treasurer

Ms. Angela Benner
Township Manager/Treasurer

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