

COMPLIANCE AUDIT

Lower Southampton Township Police Pension Plan Bucks County, Pennsylvania

October 2025



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
Lower Southampton Township
Bucks County
Feasterville, PA 19053

We have conducted a compliance audit of the Lower Southampton Township Police Pension Plan 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 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 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 findings 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:

- For the period January 1, 2023 to December 31, 2024, 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 the period January 1, 2023 to December 31, 2024, 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.
- For the period January 1, 2023 to December 31, 2024, 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 the years in the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2023 to December 31, 2024, we determined whether retirement benefits calculated for the plan members who retired or separated employment and received a lump-sum distribution during the period noted 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, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.
- For the period January 1, 2023 to December 31, 2024, 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.

Lower Southampton Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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 Lower Southampton 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.

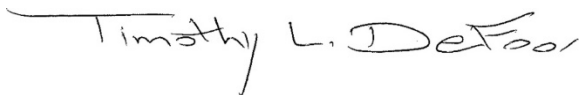
The results of our procedures indicated that, in all significant respects, the Lower Southampton Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except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

Finding – Noncompliance With Prior Recommendation – Pension Benefit
Not In Compliance With Act 600 Provisions

The finding contained in this audit report repeats a condition that was cited in our previous reports that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation 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 Lower Southampton Township and, where appropriate, their responses have been included in the report. We would like to thank township officials for the cooperation extended to us during the conduct of the audit.



Timothy L. DeFoor
Auditor General
September 23, 2025

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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 Lower Southampton 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 Lower Southampton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 573, 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 December 15, 1958. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2024, the plan had 29 active members, 1 terminated member eligible for vested benefits in the future, and 36 retirees receiving pension benefits.

LOWER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN STATUS OF PRIOR FINDING

Status Of Prior Audit Recommendation

- Pension Benefit Not Authorized By Act 600

It was noted previously in prior audit reports that the plan's governing document provided for the inclusion of lump-sum payments that were not earned during the final 36-month averaging period for pension benefit calculations, which is not authorized by Act 600. The township subsequently amended the plan's governing document and collective bargaining agreement to exclude all lump sum payments for sick leave, vacation and personal time for employees hired on or after December 31, 2001. However, excess benefits are still being paid to eight retirees who retired during prior audit periods. To the extent that the township is not in compliance with Act 600 and 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. Since the township received state aid based on unit value during the period subject to audit, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to retirees on the plan's future state aid allocations.

Compliance With Prior Recommendations

Lower Southampton Township has complied with the prior recommendations concerning the following:

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

In September 2021, the township reimbursed \$19,720.50 to the Commonwealth for the overpayments of state aid received in 2017, 2019, and 2020, including interest.

- Failure To Properly Adopt Mandatory Provisions Of Act 205

During the period subject to audit, the township implemented professional services procurement procedures in compliance with Act 205.

Noncompliance With Prior Recommendation

Lower Southampton Township has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Failure To Adopt Benefit Provisions Mandated By Act 30

LOWER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With Prior Recommendation – Pension Benefit Not In Compliance With Act 600 Provisions

Condition: As disclosed in seven prior audit reports, the plan’s governing document continues to provide a service-related disability benefit that is not in compliance with Act 600, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600</u>
Service-related disability benefit	Monthly pension benefit equal to 50% of average applicable compensation (earnings over the last 36 months) reduced by worker’s compensation.	The benefit must be in conformity with a uniform scale and fixed by the plan’s governing document at no less than 50% of the member’s salary at the time the disability was incurred, reduced by the amount of Social Security disability benefits received for the same injury.

In addition, the most recently filed actuarial valuation report for the pension plan, with a valuation date of January 1, 2023, submitted to the Municipal Pension Reporting Program, reported the service-related disability provision as 50 percent of the officer’s salary at the time of disability.

During the period subject to audit, two officers retired June 1, 2023 and May 21, 2024 with service-related disability benefits calculated using the benefit formula of 50 percent of the earnings over the last 36 months, in accordance with the plan document.

Criteria: The police pension plan’s benefit structure should be in compliance with Act 600.

Cause: Municipal officials again failed to ensure compliance with the prior recommendations.

Effect: Maintaining a benefit structure that is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan’s benefit structure into compliance with Act 600 at their earliest opportunity to do so.

LOWER SOUTHAMPTON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Management's Response: Municipal officials reiterated their response to the prior audit finding, as follows:

The Township will comply with an updated Pension Ordinance so as to mirror Act 600, as long as this is congruent with the Collective Bargaining Agreement and is not an issue with the local police association.

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

LOWER SOUTHAMPTON 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	\$ 17,192,741	\$ 22,779,627	\$ 5,586,886	75.5%
01-01-21	20,397,656	25,224,006	4,826,350	80.9%
01-01-23	24,027,583	28,805,109	4,777,526	83.4%

Note: The market value of the plan's assets at 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a maximum of 120 percent and a minimum of 80 percent of the market value of assets. These methods 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.

LOWER SOUTHAMPTON 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.

LOWER SOUTHAMPTON 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
2015	\$ 931,059	\$ 931,657	\$ (598)	\$2,644,285	35.23%
2016	927,904	927,904	-	2,830,965	32.78%
2017	950,096	950,096	-	2,857,174	33.25%
2018	998,858	998,858	-	3,026,118	33.01%
2019	1,226,642	1,226,642	-	3,251,449	37.73%
2020	1,247,186	1,247,186	-	3,227,610	38.64%
2021	1,377,473	1,377,473	-	3,741,797	36.81%
2022	1,412,293	1,412,293	-	3,911,562	36.11%
2023	1,379,414	1,396,500	(17,086)	3,991,653	34.99%
2024	1,414,415	1,414,415	-	*	

* Due to the timing of this audit, covered-employee payroll for 2024 was not provided in this schedule.

LOWER SOUTHAMPTON 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	9 years
Asset valuation method	Fair value – 5-year smoothing subject to a maximum of 120% and a minimum of 80% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	1.0% per year

LOWER SOUTHAMPTON 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. Kim Koutsouradis
Chairman, Board of Township Supervisors

Mr. Joseph Galdo
Township Manager

Mr. Nicholas Ryan
Finance Director

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