

COMPLIANCE AUDIT

Southwest Regional Police Pension Plan Fayette County, Pennsylvania For the Period January 1, 2020 to December 31, 2024

March 2026



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Southwest Regional Police Board
Southwest Regional Police Department
Fayette County
Belle Vernon, PA 15012

We were engaged to conduct a compliance audit of the Southwest Regional Police Pension Plan for the period January 1, 2020 to December 31, 2024 and to evaluate 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.

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.

Board officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Southwest Regional Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Results for Objective No. 1

For the portion of our audit related to determining if board officials took appropriate corrective action to address the findings contained in our prior report, it is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objective. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, which included examination of reports filed with the Commonwealth, we determined that board officials failed to take any corrective action to address any of the findings contained in our prior report. Accordingly, Finding Nos. 2, 3, 4, and 5 contained in this audit report repeat conditions cited in our previous report that have not been corrected by board officials. We are concerned by the regional police board's failure to correct these previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

Results for Objective No. 2

For the portion of the audit related to determining if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, board officials were unable to provide documentation that we requested in order to perform our audit, as detailed in the following finding:

Finding No. 1 – Failure To Maintain And Monitor An Adequate Record-Keeping System

Because of the limitations described in Finding No. 1, the scope of our work was not sufficient to enable us to conclude, and we do not express a conclusion, on whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

However, we were able to perform certain limited audit procedures as described below.

- We examined plan benefit provisions in the various available plan documents (i.e., governing plan document) for consistency across documents.
- We inquired of board officials regarding the existence of documentation related to the eligibility determination, pension calculation, and commencement of pension payments for plan members who terminated employment with the regional police department during and subsequent to the current audit period.

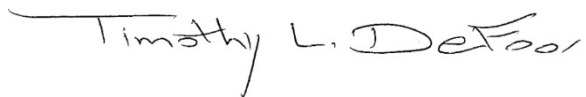
Based on the limited audit procedures we were able to perform, we have included the findings listed below and in this report. Based on the significance of the matter described in Finding No. 4 and discussed later in this report, the Southwestern Regional Police Department may be subject to the potential withholding of its state aid, as discussed in the Potential Withhold of State Aid section of this report.

- Finding No. 2 – Noncompliance With Prior Recommendation - Pension Benefits Not In Compliance With Act 600 Provisions
- Finding No. 3 – Noncompliance With Prior Recommendation - Unauthorized Provision For A Killed In Service Benefit
- Finding No. 4 – Noncompliance With Prior Recommendation - Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan
- Finding No. 5 – Noncompliance With Prior Recommendation - Incorrect Data On And Failure To File Certification Form AG 385
- Finding No. 6 – Failure To File Actuarial Valuation Reports
- Finding No. 7 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

Furthermore, if the scope of our work had been sufficient to enable us to conclude on the pension plan's compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, additional instances of noncompliance or other matters may have been identified and reported herein.

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 Southwest Regional Police Board and, where appropriate, their responses have been included in the report.



Timothy L. DeFoor
Auditor General
March 3, 2026

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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 Southwest Regional 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 Southwest Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1 of 1999, as amended, adopted pursuant to Act 600. The plan was established October 14, 1948. Active members are not required to contribute to the plan. As of December 31, 2024, the plan had one active member, one terminated member eligible for vested benefits in the future, and two retirees receiving pension benefits from the plan.

SOUTHWEST REGIONAL POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Recommendations

The Southwest Regional Police Board has not complied with any of the prior recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Pension Benefits Not In Compliance With Act 600 Provisions
- Unauthorized Provision For A Killed In Service Benefit
- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan
- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid (Titled “Incorrect Data On And Failure To File Certification Form AG 385” in this report.)

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Maintain And Monitor An Adequate Record-Keeping System

Condition: The regional police board did not maintain adequate records for examination during the course of the audit to indicate sufficient monitoring of the activity of the pension plan. The following records were not maintained or provided by the regional police board:

- Demographic data for the active, retired, and terminated pension plan members for the audit period to determine AG 385 certification eligibility and benefit eligibility.
- Internal Revenue Service Form 1099 for the retirees of the plan for the audit period to compare pension benefits due to retirees to actual benefits paid.
- Custodial account statements for 2020 and 2021.
- A chart of all plan accounts.
- Documentation to support the deposit of 2020 state aid into the pension plan to determine if it was deposited within 30 days of receipt as well as documentation to support the deposit of an additional payment released to the regional police department in 2020 representing 2017 and 2018 state aid identified as an underpayment in the prior audit report (*refer to Finding No. 5*).
- Documentation to support the current designation of a chief administrative officer of the plan.
- Meeting minutes of the regional police board.
- AG 385 Certification Forms for data years 2023 and 2024 (*refer to Finding No. 5*).
- Actuarial valuation reports for the plan with filing dates of January 1, 2021 and January 1, 2023 (*refer to Finding No. 6*).
- Documentation to support whether the change in plan custodian in 2021 was conducted and awarded in accordance with provisions of Act 205 and the plan document (*refer to Finding No. 7*).
- Documentation to support whether all plan assets were transferred from the prior custodial account to the new custodial account in 2021.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans.

In addition, assets held in a pension plan account for the purpose of plan management are to be governed by the terms and provisions of the governing plan document and account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the regional police board may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the regional police board.

Cause: Board officials were unaware of and disengaged regarding their various record-keeping and fiduciary responsibilities of pension plan administration.

Effect: The failure of board officials to maintain adequate records prohibits board officials from effectively monitoring the plan's financial operations. Inadequate records and monitoring of the regional police pension plan account could lead to undetected errors or improprieties in account transactions as well as deficiencies in authorizing and implementing pension plan policies and procedures.

Recommendation: We recommend that board officials establish accounting procedures, including record-keeping procedures necessary to allow management to maintain effective awareness of and control over the activity of the plan. Board officials should refer to the Auditor General's Bulletin No. 2-88 entitled "Preparation, Maintenance and Auditability of Financial Records" for further guidance in establishing adequate accounting procedures. We also recommend that board officials examine all financial transactions of the pension plans to ensure the accuracy, timeliness, and propriety of the transactions.

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

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

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Noncompliance With Prior Recommendation - Pension Benefits Not In Compliance With Act 600 Provisions

Condition: As disclosed in the **prior five audit reports**, the pension plan’s governing document contains benefit provisions that are not in compliance with Act 600, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Member contribution rate	Not stated	Members shall pay into the fund, monthly, an amount equal to not less than 5% nor more than 8% of monthly compensation, if not covered by Social Security. The governing body of the department may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.
Pre-vesting death benefit	None provided	The surviving spouse of a member of the police force who dies before his pension has vested or if no spouse survives or if he or she survives and subsequently dies, the child or children under the age of eighteen years, or, if attending college, under or attaining the age of twenty-three years, of the member of the police force shall be entitled to receive repayment of all money which the member invested in the pension fund plus interest or other increases in value of the member’s investment in the pension fund, unless the member has designated another beneficiary for this purpose.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. In addition, the police pension plan’s benefit structure should be in compliance with Act 600, as amended.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Board officials failed to follow through with the corrective action outlined in the management response to the finding included in the prior audit report and failed to establish adequate internal control procedures to ensure compliance with this department’s prior audit recommendations.

Effect: Maintaining a benefit structure which 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 board 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, as amended, at their earliest opportunity to do so.

Management’s Response: Board officials agreed with the finding without exception.

Auditor’s Conclusion: We are concerned by the regional police board’s failure to correct this previously reported finding and strongly encourage timely implementation of the finding recommendation.

Finding No. 3 – Noncompliance With Prior Recommendation - Unauthorized Provision For A Killed In Service Benefit

Condition: The Southwest Regional Police Department maintains a police pension plan governed by the provisions of Act 600, as amended with a killed in service benefit. During the current audit period, the pension plan’s governing document continued to provide for a killed in service benefit based on Resolution No. 2 of 2005 which states, in part:

Pre-Retirement Death Benefits for Active Participants: For surviving spouse or minor children of police officer killed in the line of duty, a benefit equal to 100% of salary as per Act 30 [of 2002].

As disclosed in our prior two audit reports, Act 51 of 2009 (Act 51) specifically repealed the section of Act 600 that allows and funds the killed in service benefit in the municipality’s current Resolution. Additionally, Act 51 added a more enhanced killed in service benefit that is funded by the Commonwealth’s General Fund.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Criteria: Section 1 (d) of Act 51 of 2009 states, in part:

Upon receipt of such certification, **the Commonwealth shall, from moneys payable out of the General Fund**, pay to the surviving spouse or, if there is no surviving spouse, to the minor children of the paid firefighter, ambulance service or rescue squad member or law enforcement officer who died as a result of the performance of his duty the **sum of \$100,000**, adjusted in accordance with subsection (f) of this section, **and an amount equal to the monthly salary**, adjusted in accordance with subsection (f) of this section, of the deceased paid firefighter, ambulance service or rescue squad member or law enforcement officer, **less any workers' compensation or pension or retirement benefits paid to such survivors**, and shall continue such monthly payments until there is no eligible beneficiary to receive them. (Emphasis added.)

The \$100,000 benefit amount listed in Act 51 above was adjusted for the most recent five Fiscal Years as follows:¹

- 7/1/2021 – 6/30/2022 \$136,904.96
- 7/1/2022 – 6/30/2023 \$146,448.31
- 7/1/2023 – 6/30/2024 \$156,010.04
- 7/1/2024 – 6/30/2025 \$161,314.39
- 7/1/2025 – 6/30/2026 \$165,992.50

Cause: Although Board officials agreed with the prior audit finding, they again failed to review the unauthorized benefit provision with their solicitor. Furthermore, the board again failed to establish adequate internal control procedures to ensure compliance with this department's prior audit recommendation.

Effect: Since Section 1 of Act 51 provides that the Commonwealth is obligated to pay the killed in service benefit less any pension or retirement benefits paid to eligible survivors, the continued provision of the municipality's killed in service benefit could result in the pension plan being obligated to pay a benefit that is no longer authorized by Act 600 and would have been paid entirely by the Commonwealth absent such provision.

¹ <https://www.pa.gov/agencies/dgs/file-an-insurance-claim/line-of-duty-death-benefits#accordion-94660e9123-item-ead13f5d8e> (accessed March 13, 2026).

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 3 – (Continued)

Recommendation: We again recommend that board officials review the plan's killed in service benefit with their solicitor in conjunction with Act 51 of 2009 and eliminate the unauthorized benefit provision at the earliest opportunity to do so.

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

Auditor's Conclusion: We are concerned by the regional police board's failure to correct this previously reported finding and strongly encourage timely implementation of the finding recommendation.

Finding No. 4 – Noncompliance With Prior Recommendation - Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, board officials did not properly determine and fully pay the minimum municipal obligations (MMOs) of the police pension plan for the years 2017 and 2018, as required by Act 205. However, based on estimates prepared by this department, the MMO calculations resulted in \$9,926 due for the year 2017 and \$1,875 due for the year 2018, totaling \$11,801.

During the current audit period, board officials again failed to determine and pay the MMOs for the police pension plan for the years 2021, 2022, 2023, 2024, and 2025, and failed to determine the MMO for the year 2026.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

With regard to the 2018 MMO which was prepared late and utilized data from an actuarial valuation report that had yet to be filed with the Municipal Pension Reporting Program (MPRP), and the 2021, 2022, 2023, 2024, 2025, and 2026 MMOs which have not been prepared, the Pennsylvania Code, Title 16, Section 204.1(e) states:

If a municipality fails to adopt a minimum municipal obligation, the minimum municipal obligation shall be calculated using the actual payroll and member contributions for the applicable year and actuarial data extracted from the certified actuarial valuation prepared immediately before the year for which the minimum municipal obligation is to be calculated. The minimum municipal obligation calculated under this subsection shall be used to determine compliance with the actuarial funding standard.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Board officials again failed to establish adequate internal control procedures to ensure compliance with this department's prior audit recommendation. Furthermore, because the board failed to file the actuarial valuation reports as of January 1, 2021 and January 1, 2023, some of the data required to determine the MMOs was not available in order to prepare the MMOs (*refer to Finding Nos. 1 and 6*).

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 4 – (Continued)

Effect: The proper determination of the plan’s MMOs ensures board officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMOs could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the regional police board’s failure to fully pay the 2017, 2018, 2021, 2022, 2023, 2024, and 2025 MMOs by the December 31st deadlines, board officials must add the MMO balances to the current year’s MMO and include interest, as required by Act 205.

Furthermore, the regional police plan’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We again recommend that the regional police board pay the MMOs due to the police pension plan for the years 2017 and 2018, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the board for examination during our next audit of the plan.

Additionally, once the actuarial valuation reports are prepared and submitted to the MPRP for the periods January 1, 2021 and January 1, 2023, we recommend that the regional police board determine the amounts of the 2021, 2022, 2023, 2024, 2025, and 2026 MMOs and pay the MMOs due to the police pension plan, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the board for examination during our next audit of the plan.

Furthermore, we again recommend that, in the future, board officials establish adequate internal control procedures to ensure the MMO is determined in accordance with Act 205 provisions and applicable regulations.

Management’s Response: Board officials agreed with the finding without exception.

Auditor’s Conclusion: Due to the potential withhold of state aid, the regional police board’s compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – Noncompliance With Prior Recommendation - Incorrect Data On And Failure To File Certification Form AG 385

Condition: Our prior audit report disclosed that the board reported incorrect data on the Certification Forms AG 385 filed in the years 2017 and 2018, resulting in an underpayment of state aid in the amount of \$12,884. This amount was subsequently allocated to the board in September 2020, however, we were unable to verify the receipt and deposit of the state aid (*refer to Finding No. 1*).

During the current audit period, the board again failed to comply with the instructions that accompanied Certification Form AG 385 to assist them in accurately reporting the required pension data. The board overstated payroll by \$2,489 on the Certification Form AG 385 filed in 2022. The data contained on this certification form is based on prior calendar year information.

Furthermore, the board failed to file the Certification Forms AG 385 in 2024 (data year 2023) and 2025 (data year 2024) that were due by March 31, 2024 and 2025, respectively.

Criteria: The general instructions that accompany Certification Form AG 385 disclose that municipalities must complete the online form located on the Department of Community and Economic Development’s Municipal Statistics website annually by March 31st. 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.

In addition, pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Board officials again failed to establish adequate internal control procedures to ensure compliance with this department’s prior audit recommendation (*refer to Finding No. 1*).

Effect: Since the board failed to file the form in the years 2024 and 2025, and also failed to file the actuarial valuation reports as reported in Finding No. 6, it did not receive state aid allocations in the years 2022, 2023, 2024, and 2025. Therefore, state aid, if any was determined to be payable, was not available to be deposited timely.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 5 – (Continued)

Recommendation: We recommend that the regional police board take immediate action to complete the Certification Forms AG 385 that were due March 31, 2024 and March 31, 2025, respectively, and submit them to the Municipal Pension and Fire Relief Programs Unit. When these reports and the actuarial valuation reports discussed in Finding No. 6 are submitted, the regional police department's annual state aid allocations may be determined.

To ensure that future reporting deadlines are met and to improve pension plan administration, we recommend that board officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the Certification Form AG 385 filing date.

We also recommend that 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: Board officials agreed with the finding without exception.

Auditor's Conclusion: We are concerned by the regional police board's failure to correct this previously reported finding and strongly encourage timely implementation of the finding recommendation.

Finding No. 6 – Failure To File Actuarial Valuation Reports

Condition: Actuarial valuation reports form type C for the police pension plan with valuation dates of January 1, 2021 and January 1, 2023 were not submitted to the Municipal Pension Reporting Program by the March 31, 2022 and March 31, 2024 deadlines, respectively, as required by Act 205 and remained delinquent at the completion of our audit fieldwork.

Criteria: Section 201(a) of Act 205 states, in part:

Each municipality which has established or maintains a pension plan for its employees, including any municipality which participates in the Pennsylvania Municipal Retirement System, shall cause to be made actuarial valuation reports. Actuarial valuation reports shall be made biennially, unless the applicable municipality is applying or has previously applied for supplemental State assistance pursuant to Section 603, whereupon actuarial valuation reports shall be made annually.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Furthermore, Section 201(b) of Act 205 states, in part:

The biennial actuarial valuation report required pursuant to subsection (a) shall be made as of the beginning of each plan year occurring in an odd-numbered calendar year and shall be filed with the executive director of the commission no later than the last business day of March occurring in the following calendar year.

In addition, Section 204 of Act 205 provides:

If a complete actuarial valuation report or experience investigation is not filed in a timely fashion, any and all financing which is provided to the municipality by the Commonwealth and is dedicated for pension plan purposes shall be withheld until the report or investigation is filed.

Finally, Section 402(e)(7) of Act 205 states, in part:

Any municipality which has not filed with the commission on a timely basis, pursuant to the applicable municipal pension plan actuarial reporting law, an actuarial report for each of the municipal pension plans which it has established or maintains shall be entitled to receive as general municipal pension system State aid, at such time as compliance with the actuarial reporting requirement occurs, the adjusted amount of general municipal pension system State aid per unit

Cause: Board officials failed to establish adequate internal controls to ensure that the reports were filed as required.

Effect: Due to the board's failure to file the required actuarial valuation reports, the regional pension plan's 2022, 2023, 2024, and 2025 state aid allocations were not able to be calculated and released. As a result, the regional pension plan did not have its state aid available to use for operating expenses and investment opportunities (*refer to Finding No. 4*). In addition, future state aid, if any, will be withheld until the necessary reports are filed. Lastly, the plan may receive less state aid than it would have received had the reports been filed in a timely manner.

In addition, since data from the actuarial valuation reports is utilized in calculating the MMOs of the plan, the MMOs identified in Finding No. 4 will not be able to be determined until the delinquent actuarial valuation reports are prepared and filed.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 6 – (Continued)

Recommendation: We recommend that the regional police board take immediate action to complete the January 1, 2021 and January 1, 2023 Act 205 actuarial valuation reports which were due by March 31, 2022 and March 31, 2024, respectively, and submit them to the MPRP. By submitting the reports as soon as possible, the regional police board can minimize the length of time the pension aid will be withheld due to the delinquent filing of the required reports.

Furthermore, to ensure that future actuarial filing deadlines are met and to improve pension plan administration, we recommend that board officials develop and implement internal control procedures, such as a calendar listing the various reporting and filing deadlines required by Act 205, including the actuarial valuation report filing date.

Management’s Response: Board officials agreed with the finding without exception.

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

Finding No. 7 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

Condition: In 2021, the board changed investment service contractors for its police pension plan. However, there was no evidence provided to support that the change in investment provider was conducted and awarded in accordance with provisions of Act 205 and the plan document.

Criteria: Section 701-A of Act 205 defines a “Professional Services Contract” as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services;
and
- (2) not subject to a requirement that the lowest bid be accepted.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – (Continued)

In addition, Section 702-A (a) of Act 205 states, in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f), and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states, in part:

Upon the advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

SOUTHWEST REGIONAL POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 7 – (Continued)

Furthermore, Resolution No. 2 of 2020, enacted by the board on May 13, 2020, established procedures for the procurement of professional services for the municipal pension system in accordance with Act 205 provisions.

Cause: Municipal officials failed to implement the procedures established by Resolution No. 2 of 2020 and failed to document adherence with each requirement prescribed under the provisions of Act 205 and the board’s own procurement procedures in the awarding of the professional services contract for the investment and advisory services for the pension plan.

Effect: We were unable to determine whether the board complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures for the procuring of professional investment services for the board’s police pension plan. Also, by failing to maintain appropriate substantive supporting documentation evidencing adherence with Act 205 and the board’s procedures for the professional services contract, a general lack of transparency exists.

Recommendation: We recommend the board follow procedures developed and implemented by the board in Resolution No. 2 of 2020 for the procurement of professional services for the board’s pension plans and ensure compliance with Act 205 provisions while maintaining appropriate and sufficient supporting documentation. This documentation should evidence every phase of the process in accordance with Act 205 and the board’s policies and procedures in the awarding of future professional services contracts for the board’s pension plans.

In addition, since we were unable to conclude whether the board complied in all respects with the provisions stipulated in Act 205 and its own governing policies and procedures relative to the procurement of the investment services for the police pension plan, we recommend that boards officials collectively review the process and familiarize themselves with the procedures enacted by the board while closely examining and identifying ways to improve the process as a whole.

Management’s Response: Board officials agreed with the finding without exception.

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

SOUTHWEST REGIONAL POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

A condition of a repeat finding such as that reported by Finding No. 4 contained in this audit report may lead to a total withholding of state aid in the future unless that finding is corrected. However, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendation. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

SOUTHWEST 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, 2015, 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)
01-01-15	\$ 615,567	\$ 407,839	\$ (207,728)	150.9%
01-01-17	663,522	389,865	(273,657)	170.2%
01-01-19	678,063	474,711	(203,352)	142.8%

The information presented represents the most recently filed actuarial information available (*refer to Finding No. 6*).

SOUTHWEST 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.

SOUTHWEST REGIONAL POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	None	N/A
2016	\$ 20,056	101.7%
2017	None	N/A
2018	None	N/A
2019	None	N/A
2020	None	N/A

N/A – Not applicable

The information presented represents the most recent information available (*refer to Finding No. 4*).

SOUTHWEST 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	5.0%
Projected salary increases	5.0%

The information presented represents the most recently filed actuarial information available (*refer to Finding No. 5*).

SOUTHWEST REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Joseph Minniti
President, Southwest Regional Police Board

Mr. Keith Williams
Chief of Police

Ms. Kathy McQuillis
Secretary

Mr. Clifford Gorski
Council Chair, Belle Vernon Borough

Mr. John Matty, III
Council President, Newell Borough

Mr. Doug Santo
Council President, Long Branch Borough

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.