COMPLIANCE AUDIT

Susquehanna Township Police Pension Plan

Dauphin County, Pennsylvania

June 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 Commissioners
Susquehanna Township
Dauphin County
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We have conducted a compliance audit of the Susquehanna 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report; and

2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- For the period January 1, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, 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, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, 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, 2022 to December 31, 2023, 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, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, we determined whether retirement benefits calculated for plan members who retired or elected to vest during the period noted, and through the completion of our fieldwork procedures, 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, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, we determined whether all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

- For the period January 1, 2022 to December 31, 2023, and through the completion of our fieldwork procedures, 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.

Susquehanna 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 Susquehanna 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 Susquehanna 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 findings further discussed later in this report:

Finding No. 1 – Pension Benefit Not Authorized By Act 600 Or The Plan's Governing Document

Finding No. 2 – Inconsistent Pension Benefits

Finding No. 3 – Plan Benefit Provision Not Adequately Documented

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 Susquehanna 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.

Gordon R. Denlinger, CPA
Deputy Auditor General for Audits
June 3, 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 Susquehanna 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Susquehanna Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 08-23, as amended, and a separately executed plan agreement with the plan's custodian, 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 March 14, 1974. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2023, the plan had 41 active members, 6 terminated members eligible for vested benefits in the future, and 43 retirees receiving pension benefits from the plan.

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Susquehanna Township has complied with the prior audit recommendation concerning the following:

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

  In December 2019, the township returned $14,421 to the Commonwealth for the overpayment of state aid received in 2016 and 2017.

Finding No. 1 – Pension Benefit Not Authorized By Act 600 Or The Plan's Governing Document

Condition: The plan is paying a monthly pension benefit to a retiree in excess of that authorized by Act 600 and the plan's governing document, Ordinance No. 08-23. The retiree, who retired February 1, 2024, had his pension benefit incorrectly determined because municipal officials failed to accurately calculate the member's final monthly average salary in accordance with the plan's governing document, by including a lump sum payment of $74,768.01 for unused leave in the member's final monthly average salary.

Furthermore, the township paid bonus payments totaling $25,000 to the member in 2024. The $25,000 was appropriately excluded from the final monthly average salary calculation, however, the member contributed the mandatory contribution of 5 percent to the pension plan for the compensation received. This resulted in $1,250 in member contributions being applied to the pension plan.

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

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

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

Section 1.3 (c) of the plan's governing document, Ordinance No. 08-23, prescribes that the retirement benefit calculation is based on the participant's average monthly compensation, and defines average monthly compensation as follows:

> **Average Monthly Compensation** means the average of a participant's monthly compensation over the 36-consecutive-month period ending on the date of employment termination…

Section 1.3 (a) (1) of the plan's governing document, Ordinance No. 08-23, defines compensation as follows:

> **Compensation** means any earnings reportable as W-2 wages for federal income tax withholding purposes, plus elective contributions, for the applicable period…

Finding No. 1 – (Continued)

Furthermore, Section 1.3 (a) (2) of the plan's governing document, Ordinance No. 08-23, defines exclusions from compensation as follows:

> **Exclusions From Compensation** - Notwithstanding the provisions of Section 1.3(a)(1), for participants hired after June 1, 2003, the following types of remuneration shall be excluded from the participant's compensation:
>
> - Unused vacation, personal day, and sick pay paid on account of termination of employment.
>
> - Any lump sum payment made upon termination of employment.

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

Effect: The plan is paying pension benefits to a retiree in excess of the plan's governing document. The retiree is receiving excess benefits of $691 per month, which totaled approximately $9,677 from retirement until the date of this report.

The township also withheld $1,250 from the retiree's bonus payments which were not pensionable wages.

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the township received state aid based on unit value for its pension plans during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and could increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Finding No. 1 – (Continued)

Recommendation: We recommend that municipal officials adjust the retiree's pension benefit in accordance with Act 600 and the provisions of the plan's governing document. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits to the retiree 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 aid. In such case, the pension plan's actuary may be required to determine the impact, if any, of the excess benefit payments on the township's future state aid allocations and submit this information to the Department. If it is determined the excess benefit payments had an impact on the township's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the Department to verify the overpayment of state aid received and the township would be required to reimburse the overpayment to the Commonwealth.

We further recommend that future pension benefits be calculated and paid in accordance with the applicable provisions contained in the plan's governing document in effect at the time of a plan member's retirement.

In addition, we recommend that the $1,250 of member contributions withheld on the retiree's bonus payments be refunded to the retiree.

Management's Response: Municipal officials agreed with the finding and provided the following response:

> Management agrees that there must be additional rigor with respect to the calculation of members' expected benefits.

Auditor's Conclusion: The township's compliance with the finding recommendation will be evaluated during our next audit of the plan.

Finding No. 2 – Inconsistent Pension Benefits

Condition: The collective bargaining agreement between the police officers and the township contains a cost of living adjustment provision that conflicts with the plan's governing document. Section XIII. K. of the collective bargaining agreement for the period January 1, 2023 to December 31, 2025 states:

> Any police officer who retires after January 2, 2005, shall be entitled to an annual cost of living increase to his or her pension benefit. The cost of living increase shall not exceed the percentage increase in the Consumer Price Index from the year in which the police member last worked, shall not cause the total police pension benefits to exceed 75 per centum of the salary for computing retirement benefits and shall not cause the total cost of living increase to exceed 30 per centum. **This benefit shall not cause the total cost of living increase to exceed 15 per centum for any police officer hired on or after January 1, 2011. Officers hired on or after the date of January 3, 2020 shall be eligible for a cost of living adjustment not to exceed 15 per centum commencing in the sixth year following his or her retirement.** (Emphasis added.)

Section 3.2(f) of the plan document, adopted by Ordinance No. 08-23, contains the same provision as the collective bargaining agreement for police officers who retire after January 2, 2005, but does not contain a separate provision for officers hired on or after January 1, 2011 or officers hired on or after January 3, 2020.

In addition, the actuarial valuation report form type C, for the police pension plan, with a valuation date of January 1, 2023, submitted to the Municipal Pension Reporting Program, reported the benefit provisions included in the collective bargaining agreement.

Criteria: The plan's governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits. Prudent business practices dictate that the governing document be reviewed and updated with the approval of new collective bargaining agreements.

Cause: Municipal officials failed to update the plan's governing document.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

Finding No. 2 – (Continued)

Management's Response: Municipal officials provided the following response:

> Management agrees and will be ensuring that the proper plan documents are supported by appropriate studies as well as an appropriate ordinance.

Auditor's Conclusion: The township's compliance with the finding recommendation will be evaluated during our next audit of the plan.

Finding No. 3 – Plan Benefit Provision Not Adequately Documented

Condition: The township implemented a Deferred Retirement Option Program (DROP) which two police officers participated in during the current period subject to audit; however, this benefit is not provided by the plan's governing document. An actuarial cost study was prepared in 2021 to determine the cost impact on the plan of adding a DROP to the plan, but the township does not have record of an amendment to the governing plan document or a municipal ordinance to formally adopt the benefit provision.

Criteria: A governing document which contains clearly defined and updated benefit provisions is a prerequisite for the consistent, sound administration of retirement benefits. Proper internal control procedures dictate that the provisions of the pension plan be formally adopted by a municipal ordinance.

Cause: Plan officials were unaware that the township should formally adopt the benefit provision through a plan amendment and properly executed ordinance.

Effect: Improperly adopted and approved plan documents could result in inconsistent or improper benefit funding and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials, with the assistance of the township's solicitor, ensure that all of the plan's benefit provisions are contained in a properly executed plan document and formally adopted by a municipal ordinance.

Management's Response: Municipal officials provided the following response:

> Management agrees and will be ensuring that the proper plan documents are supported by appropriate studies as well as an appropriate ordinance.

Auditor's Conclusion: The township's compliance with the finding recommendation will be evaluated during our next audit of the plan.

SUSQUEHANNA 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	$ 19,975,947	$ 31,228,824	$ 11,252,877	64.0%
01-01-21	27,645,217	36,181,960	8,536,743	76.4%
01-01-23	30,702,159	39,778,011	9,075,852	77.2%

Note: The market value of the plan's assets at 01-01-23 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

SUSQUEHANNA 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.

SUSQUEHANNA TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 1,159,572	$ 1,159,572	$ -	$3,609,119	32.13%
2015	1,623,323	1,623,323	-	3,662,041	44.33%
2016	1,707,214	1,707,214	-	3,723,793	45.85%
2017	1,613,960	1,613,960	-	3,864,845	41.76%
2018	1,635,963	1,635,963	-	4,066,069	40.23%
2019	1,837,484	1,837,484	-	3,974,082	46.24%
2020	1,886,690	1,886,691	(1)	3,993,205	47.25%
2021	2,043,068	2,043,068	-	4,295,805	47.56%
2022	1,766,531	1,766,531	-	4,341,335	40.69%
2023	1,818,524	1,818,524	-	4,692,532	38.75%

SUSQUEHANNA 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	10 years
Asset valuation method	Each year the investment gain (excess of actual investment income including realized and unrealized appreciation over expected investment income) or loss is recognized over a five-year period. In no event is the actuarial value of assets allowed to be greater than 120% or less than 80% of market value.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0%

SUSQUEHANNA 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. Frank Lynch
President, Board of Commissioners

Mr. Steven Napper
Vice-President, Board of Commissioners

Ms. Theresa Eberly
Township Manager

Ms. Traci Eismann
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