

COMPLIANCE AUDIT

Northern Lancaster County Regional Police Pension Plan Lancaster County, Pennsylvania

July 2025



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**

Northern Lancaster County Regional Police Commission
Lancaster County
Stevens, PA 17578

We have conducted a compliance audit of the Northern Lancaster County Regional 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 objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine whether 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 area 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:

- 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, 2024 to December 31, 2024, we determined whether 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 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, 2024 to December 31, 2024, we determined whether 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 using the rates obtained from the plan's governing document in effect for the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2024 to December 31, 2024, we determined whether retirement benefits calculated for the plan member who retired 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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, 2024 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.

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

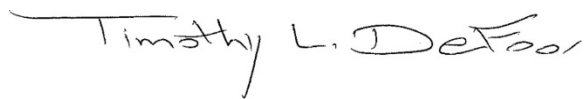
Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Northern Lancaster County Regional Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, 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 Northern Lancaster County Regional 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 – Incorrect Data On Certification Form AG 385 Resulting In A
Net Overpayment 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 Northern Lancaster County Regional Police Commission and, where appropriate, their responses have been included in the report. We would like to thank commission officials for the cooperation extended to us during the conduct of the audit.

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive, flowing style.

Timothy L. DeFoor
Auditor General
June 27, 2025

CONTENTS

	<u>Page</u>
Background	1
Finding and Recommendation:	
Finding – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid	2
Supplementary Information	4
Report Distribution List	8

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 Northern Lancaster County 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 Northern Lancaster County Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 12-13-12-01, as amended, and a separately executed plan agreement with the plan's custodian effective January 1, 2012, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the regional commission and its police officers. The plan was established March 8, 1973. Active members hired before January 1, 2012 are required to contribute 4 percent of gross compensation to the plan. Active members hired on or after January 1, 2012 are required to contribute 4 percent of base compensation to the plan. As of December 31, 2024, the plan had 32 active members, 4 terminated members eligible for vested benefits in the future, and 21 retirees receiving pension benefits from the plan.

NORTHERN LANCASTER COUNTY REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The commission certified an ineligible police employee (2 units) and overstated payroll by \$101,091 on the Certification Form AG 385 filed in 2023. The ineligible member retired effective October 21, 2021, and entered the regional's Deferred Retirement Option Program (DROP). In addition, the commission understated police payroll by \$82,000 on the Certification Form AG 385 filed in 2024. 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.

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials were unaware that DROP participants and their compensation are not eligible for certification. In addition, the \$82,000 error was attributed to a keying error in entering one employee's payroll. Furthermore, the commission lacked adequate internal control procedures, such as having another individual review the data certified to ensure compliance with the instructions that accompanied Certification Form AG 385 prior to submission.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the commission for distribution to its pension plans. Because the commission's state aid allocation was based on unit value for the year 2023 and based on pension costs for the year 2024, the incorrect certification of pension data affected the commission's state aid allocations, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>Normal Cost</u>	<u>Payroll (Understated)</u>	<u>State Aid Overpayment (Underpayment)</u>
2023	2	\$5,828			\$ 11,656
2024			12.37748%	(\$82,000)	<u>(\$ 10,150)</u>
			Net Overpayment of State Aid		<u><u>\$ 1,506</u></u>

NORTHERN LANCASTER COUNTY REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We recommend that the net overpayment of state aid, in the amount of \$1,506, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also 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: Commission officials agreed with the finding without exception.

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

NORTHERN LANCASTER COUNTY 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, 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	\$10,267,351	\$ 10,732,890	\$ 465,539	95.7%
01-01-21	12,139,585	12,150,946	11,361	99.9%
01-01-23	13,864,163	13,338,620	(525,543)	103.9%

Note: The market values of the plan's assets at 01-01-19 and 01-01-21 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. The market value of assets at 01-01-23 has been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 90 to 110 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.

NORTHERN LANCASTER COUNTY 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.

NORTHERN LANCASTER COUNTY 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
2019	\$ 328,517	109.2%
2020	361,804	115.6%
2021	427,232	100.0%
2022	345,912	100.6%
2023	376,159	100.0%
2024	279,783	109.1%

NORTHERN LANCASTER COUNTY 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	5-year smoothing, the actuarial value of assets will be limited to a maximum of 110% and a minimum of 90% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.00%
Cost-of-living adjustments	Penn Township members who retired or terminated with vesting prior to January 1, 2012 are eligible for a COLA based on the lesser of 4.0% or the CPI increase for the prior calendar year.

NORTHERN LANCASTER COUNTY 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. A. Keith Martin
Chairman, Regional Police Commission

Mr. Joshua Kilgore
Chief Administrative Officer/Police Chief

Ms. Rebecca Borne
Administrator

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.