

# LIMITED PROCEDURES ENGAGEMENT

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## East Coventry Township Non-Uniformed Cash Balance Pension Plan

Chester County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2016

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September 2017



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Board of Township Supervisors  
East Coventry Township  
Chester County  
Pottstown, PA 19465

We conducted a Limited Procedures Engagement (LPE) of the East Coventry Township Non-Uniformed Cash Balance Pension Plan for the period January 1, 2015 to December 31, 2016 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 *et seq.*) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the engagement period.
- 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether annual employee contributions were required during the engagement period and, if so, were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- Whether the January 1, 2015 actuarial valuation report was prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2016, 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the East Coventry Township Non-Uniformed Cash Balance Pension Plan was not being administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:


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

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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 East Coventry Township and, where appropriate, their responses have been included in this report.

August 24, 2017

  
EUGENE A. DEPASQUALE  
Auditor General

# CONTENTS

	<u>Page</u>
Finding and Recommendation:	
Finding – Incorrect Data On Certification Forms AG 385 Resulting In An Overpayment Of State Aid.....	1
Potential Withhold of State Aid.....	3
Supplementary Information .....	4
Summary of Deposited State Aid and Employer Contributions.....	6
Report Distribution List .....	7

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The township certified 1 ineligible non-uniformed cash balance employee (1 unit) and overstated payroll by \$6,719 on the Certification Form AG 385 filed in 2015, and certified 1 ineligible police officer (2 units) and overstated payroll by \$76,045 on the Certification Form AG 385 filed in 2016. The data contained on these certification forms are based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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

<u>Year</u>	<u>Type of Plan</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2015	Non-Uniformed Cash Balance	1	\$ 3,921	\$ 3,921
2016	Police	2	\$ 4,375	<u>\$ 8,750</u>
Total Overpayment of State Aid				<u><u>\$ 12,671</u></u>

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

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

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the total excess state aid, in the amount of \$12,671, plus interest, 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 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: Municipal officials agreed with the certification errors, but want to investigate the state aid overpayments further.

Auditor's Conclusion: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next engagement of the plan.

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the township in the amount of \$12,671, plus interest. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

The supplementary information contained on Pages 4 and 5 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION  
 LIABILITY AND RELATED RATIOS  
 FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>2015</u>
Total Pension Liability	
Service cost	\$ 11,660
Interest	777
Difference between expected and actual experience	(1)
Net Change in Total Pension Liability	12,436
Total Pension Liability - Beginning	9,965
Total Pension Liability - Ending (a)	\$ 22,401
 Plan Fiduciary Net Position	
Contributions - employer	\$ 5,830
Contributions - PMRS assessment	80
Contributions - member	5,830
Net investment income	(667)
Administrative expense	(93)
Net Change in Plan Fiduciary Net Position	10,980
Plan Fiduciary Net Position - Beginning	9,823
Plan Fiduciary Net Position - Ending (b)	\$ 20,803
 Net Pension Liability - Ending (a-b)	\$ 1,598
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.87%
 Estimated Covered Employee Payroll	\$ 116,597
 Net Pension Liability as a Percentage of Covered Employee Payroll	1.37%



EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the township as of December 31, 2015, calculated using the discount rate of 5.50%, as well as what the township's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability	\$ 6,078	\$ 1,598	\$ (2,882)

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2014	None	\$ 691
2015	None	5,830
2016	None	8,495

EAST COVENTRY TOWNSHIP NON-UNIFORMED CASH BALANCE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Ray Kolb**  
Chairman, Board of Township Supervisors

**Mr. Bernard Rodgers**  
Township Manager

**Ms. Jill Barbera**  
Finance Director

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://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](mailto:news@PaAuditor.gov).