

COMPLIANCE AUDIT

Lower Chichester Township Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2013 to December 31, 2016

July 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Commissioners
Lower Chichester Township
Delaware County
Linwood, PA 19061

We have conducted a compliance audit of the Lower Chichester Township Police Pension Plan for the period January 1, 2013 to December 31, 2016. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 findings contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the findings contained in our prior audit 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:

- 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 all years within the period under audit.

- 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.
- 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 members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2011, January 1, 2013, and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014, and 2016, respectively, in accordance with Act 205 and whether selected information provided on these reports 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.
- 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Chichester Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

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

Finding No. 1 – Noncompliance With Prior Audit Recommendations –
Untimely Deposit Of State Aid

Finding No. 2 – Noncompliance With Prior Audit Recommendations – Failure
To Properly Deduct And Timely Deposit Member
Contributions

The findings contained in this audit report repeat conditions that were cited in our previous audit report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported audit findings and strongly encourage timely implementation of the recommendations noted in this audit report.

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Lower Chichester Township and, where appropriate, their responses have been included in the report.

July 17, 2017



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Findings	3
Findings and Recommendations:	
Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid.....	4
Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Properly Deduct And Timely Deposit Member Contributions.....	5
Supplementary Information	7
Report Distribution List	13

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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

Annual state aid allocations are provided from a 2 percent foreign (out-of-state) casualty insurance premium tax, a portion of the foreign (out-of-state) fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Lower Chichester Township Police Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Lower Chichester Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 91-5, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established December 30, 1957. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2016, the plan had 5 active members, no terminated members eligible for vested benefits in the future, and 2 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2016, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 55 and 25 years of service

Early Retirement 20 years of service

Vesting 100% after 12 years of service

Retirement Benefit:

50% of final 48 months average salary, plus a service increment of \$100 per month for 26 or more years of service.

Survivor Benefit:

Before Retirement Eligibility Refund of member contributions plus interest.

After Retirement Eligibility A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

70% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendation

Lower Chichester Township has complied with the prior audit recommendation concerning the following:

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

During the current audit period, municipal officials accurately reported the required pension data on the Certification Form AG 385.

Noncompliance With Prior Audit Recommendations

Lower Chichester Township has not complied with the prior audit recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Untimely Deposit Of State Aid
- Failure To Properly Deduct And Timely Deposit Member Contributions

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Untimely Deposit Of State Aid

Condition: As disclosed in the prior audit report, the municipality did not deposit the police pension plan’s share of its 2011 and 2012 state aid allocations within the 30 day grace period allowed by Act 205. The municipality received its 2011 and 2012 state aid allocations in the amounts of \$35,933 and \$38,698, respectively, on October 4, 2011, and September 28, 2012, but did not deposit the police pension plan’s share until December 27, 2011 and November 8, 2012. During the current audit period, the municipality did not deposit the police pension plan’s share of its 2013, 2014, 2015, and 2016 state aid allocations within the 30 day grace period allowed by Act 205. The municipality received its 2013, 2014, 2015, and 2016 state aid allocations in the amounts of \$43,702, \$40,092, \$42,944, and \$62,449, respectively, on September 25, 2013, October 23, 2014, September 30, 2015, and September 27, 2016, but did not deposit the police pension plan’s shares until November 5, 2013, December 31, 2014, December 30, 2015, and December 30, 2016.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with this department’s prior audit recommendation.

Effect: Although the state aid was deposited into the police pension plan, the interest earned beyond the 30 day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We again recommend that the municipality pay the police pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205. A copy of the interest calculations must be maintained by the township for examination during our next audit of the plan.

We also again recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited into the pension plan in accordance with Act 205 requirements.

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

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

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

Finding No. 2 – Noncompliance With Prior Audit Recommendation – Failure To Properly Deduct And Timely Deposit Member Contributions

Condition: As disclosed in the prior audit report, municipal officials failed to deduct \$2,543 of member contributions from 1 plan member during the years 2011 and 2012. The police officer was hired on June 1, 2011; however, the township did not begin deducting member contributions until May 10, 2012. The township also failed to deduct member contributions on longevity pay for all plan members in 2011. In addition, member contributions which were deducted were not deposited timely. Member contributions in the amounts of \$6,553, \$12,908, and \$4,900 for the years 2010, 2011, and 2012, respectively, were not deposited until July 6, 2011, March 3, 2012, and February 11, 2013, respectively. Although member contributions were deducted properly during the current audit period, member contributions which were deducted were not deposited timely. Member contributions in the amount of \$16,496, \$18,294, \$18,170, and \$19,939 for the years 2013, 2014, 2015, and 2016, respectively, were not deposited until December 31, 2014, July 13, 2015, June 8, 2016 and February 7, 2017, respectively.

Criteria: Section 1(a)(1) of Act 600 states, in part:

Each borough, town and township of this Commonwealth maintaining a police force of three or more full-time members and each regional police department shall, and all other boroughs, towns or townships may, establish, by ordinance or resolution, a police pension fund or pension annuity to be maintained by a charge against each member of the police force . . . [Emphasis added]

In addition Act 600, at section 6(a), states, in part:

Members shall pay into the fund, monthly, an amount equal to not less than five per centum nor more than eight per centum of monthly compensation. . . .

Furthermore, Ordinance No. 2003-02, Section 3.01 states that members shall pay into the fund at a rate of five percent (5%) of compensation. The definition of compensation contained in the plan’s governing document includes longevity pay.

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with this department's prior audit recommendation.

Effect: Insufficient member contributions could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We again recommend that the delinquent member contributions be deposited into the pension plan and interest be paid on the member contributions that were deposited untimely. We also again recommend that plan officials establish adequate internal control procedures to ensure future member contributions are properly deducted and deposited timely into the pension plan.

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

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

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 7 and 8 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 YEARS ENDED DECEMBER 31, 2014, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 44,934	\$ 51,563	\$54,141
Interest	80,107	92,279	100,675
Difference between expected and actual experience	-	37,846	-
Changes of assumptions	-	24,117	-
Benefit payments, including refunds of member contributions	(41,476)	(41,476)	(41,476)
Net Change in Total Pension Liability	<u>83,565</u>	<u>164,329</u>	<u>113,340</u>
Total Pension Liability - Beginning	977,140	1,060,705	1,225,034
Total Pension Liability - Ending (a)	<u>\$ 1,060,705</u>	<u>\$ 1,225,034</u>	<u>\$ 1,338,374</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 1,511	\$ 6,370	\$ -
Contributions – state aid	40,092	36,734	47,629
Contributions – member	18,294	18,170	19,939
Net investment income	61,554	(9,440)	67,917
Benefit payments, including refunds of member contributions	(41,476)	(41,476)	(41,476)
Administrative expense	(3,915)	(3,811)	(10,261)
Net Change in Plan Fiduciary Net Position	<u>76,060</u>	<u>6,547</u>	<u>83,748</u>
Plan Fiduciary Net Position - Beginning	922,159	998,219	1,004,766
Plan Fiduciary Net Position - Ending (b)	<u>\$ 998,219</u>	<u>\$ 1,004,766</u>	<u>\$ 1,088,514</u>
Net Pension Liability - Ending (a-b)	<u>\$ 62,486</u>	<u>\$ 220,268</u>	<u>\$ 249,860</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.1%	82.0%	81.3%
Estimated Covered Employee Payroll	\$ 328,174	\$ 346,070	\$ 400,000
Net Pension Liability as a Percentage of Covered Employee Payroll	19.0%	63.6%	62.5%

LOWER CHICHESTER TOWNSHIP POLICE 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, 2014, 2015, and 2016, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/14	\$ 199,754	\$ 62,486	\$ (54,334)
Net Pension Liability – 12/31/15	\$ 381,366	\$ 220,268	\$ 83,435
Net Pension Liability – 12/31/16	\$ 424,097	\$ 249,860	\$ 101,648

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2016	7.20%
2015	(1.00%)
2014	7.04%

LOWER CHICHESTER 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, 2011, 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)
01-01-11	\$ 810,997	\$ 819,273	\$ 8,276	99.0%
01-01-13	912,661	901,905	(10,756)	101.2%
01-01-15	1,058,901	1,122,668	63,767	94.3%

Note: The market values of the plan's assets at 01-01-11, 01-01-13, and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 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.

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2011	\$ 22,037	100.0%
2012	28,976	100.0%
2013	30,948	100.0%
2014	41,603	100.0%
2015	43,104	100.0%
2016	47,629	100.0%

LOWER CHICHESTER 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	14 years
Asset valuation method	Planned assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%

LOWER CHICHESTER TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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Mr. Rocco Gaspari, Jr.
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