

# COMPLIANCE AUDIT

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## Chester Township Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2018 to December 31, 2021

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May 2022



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR  
AUDITOR GENERAL**

Township Council  
Chester Township  
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Chester, PA 19013

We have conducted a compliance audit of the Chester Township Police Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated 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. 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 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 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:

- 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 total 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 whether retirement benefits calculated for plan members who retired and the plan member who elected to vest during the current audit period 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, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by 2018, 2020 and 2022, 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.

Chester Township contracted with an independent certified public accounting firm for annual audits of the Chester Township Police Pension Plan's 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 Chester 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 objective.

The results of our procedures indicated that, in all significant respects, the Chester 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 finding further discussed later in this report:

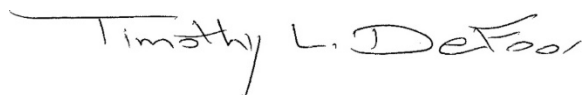
Finding – Inconsistent Pension Benefits

As previously noted, the objective of our audit of the Chester Township Police Pension Plan was to determine compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

<u>Level</u>	<u>Indication</u>	<u>Funding Criteria</u>
I	Minimal distress	70-89%
II	Moderate distress	50-69%
III	Severe distress	Less than 50%

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. However, **we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio was 58.5% as of January 1, 2019 and 68.5% as of January 1, 2021**, which is the most recent data available. **Based on the funding status of this plan aggregated with the funding status of township's non-uniformed pension plan as of January 1, 2019, the Municipal Pension Reporting Program issued a notification that the township is in Level II moderate distress status.** The township's distress level based on the plans' aggregated funding status as of January 1, 2021 will be determined later this year and notification will be issued. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Chester 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.



Timothy L. DeFoor  
Auditor General  
April 21, 2022

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

The Chester Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 3-2004, as amended, 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 June 2, 1966. Active members are required to contribute 3.5 percent of compensation to the plan. As of December 31, 2021, the plan had 13 active members, 1 terminated member eligible for vested benefits in the future, and 10 retirees receiving pension benefits from the plan.

CHESTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Inconsistent Pension Benefits**

**Condition:** The pension plan’s governing document, Ordinance No. 3-2004, as amended, contains benefit provisions that conflict with the collective bargaining agreement between the police officers and the township for the period January 1, 2019 to December 31, 2022, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Normal Retirement	Age 53 and 25 years of service	Hired prior to 1/1/21, Age 53 and 25 years of service. Hired on or after 1/1/21, Age 55 and 25 years of service.
Vesting	100% after completion of 12 years of service	Hired prior to 1/1/21, 100% after completion of 12 years of service. Hired on or after 1/1/21, no vesting.
Retirement Benefit	50% of final 36 month average compensation offset by 50% of the officer’s social security benefits.	Hired prior to 1/1/21, 50% of final 36 month average compensation offset by 50% of the officer’s social security benefits. Hired on or after 1/1/21, 50% of final 60-month average base salary offset by 50% of the officer’s primary social security benefits.
Service Increment	\$100 per month is added after completion of 26 <sup>th</sup> year of service.	Hired prior to 1/1/21, \$100 per month is added after completion of 26 <sup>th</sup> year of service. Hired on or after 1/1/21, no service increment.
Survivor Benefits	Post-Retirement: 50% of Retirement Benefit. Vested: Refund of member contributions with interest or 50% of vested benefit payable beginning at officer’s superannuation retirement date.	Post-Retirement: 50% of Retirement Benefit. Hired prior to 1/1/21, Vested: Refund of member contributions with interest or 50% of vested benefit payable beginning at officer’s superannuation retirement date. Hired on or after 1/1/21, refund of member contributions with interest only.
Deferred Retirement Option Plan (DROP)	Act 44 DROP – 60 months	Hired prior to 1/1/21, members are eligible to participate in Act 44 DROP. Hired on or after 1/1/21, members are excluded from participation in the Act 44 DROP.

CHESTER TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Disability Benefit	100% of base monthly pay at disability offset by any worker’s compensation and/or social security benefits, benefit reduced to 50% of base pay at normal retirement date.	For two officers with injuries incurred prior to 1/1/20, 70% of base salary offset by social security. For officers with injuries incurred on or after 1/1/20 who qualify for social security disability benefits, 70% of base salary offset by social security. For officers with injuries incurred on or after 1/1/20 who do not qualify for social security disability benefits, 50% of base salary.

In addition, the actuarial valuation report form Type C, for the police pension plan, with a valuation date of January 1, 2021, 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.

Cause: Municipal officials failed to update the plan’s governing document after the current collective bargaining was settled in arbitration in January 2021.

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 take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management’s Response: Management is in agreement with the finding of the auditor following our recent Police Pension audit. Due to changes in personnel, Covid-19 related delays and staff shortages, we were unable to get the proper paperwork completed and filed within the guidelines. This has been rectified and the process approved said ordinance is set for May 5, 2022.

Auditor’s Conclusion: It appears municipal officials intend to comply with the recommendation. Compliance will be evaluated during our next audit of the plan.



CHESTER 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, 2017, 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)
01-01-17	\$ 1,980,211	\$ 3,513,614	\$ 1,533,403	56.4%
01-01-19	2,264,801	3,873,184	1,608,383	58.5%
01-01-21	3,050,289	4,452,018	1,401,729	68.5%

Note: The market values of the plan's assets at 01-01-17 and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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.

CHESTER 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.

CHESTER TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 99,339	\$ 99,339	\$ -	\$ 777,528	12.78%
2015	101,991	101,991	-	803,780	12.69%
2016	145,673	145,673	-	863,506	16.87%
2017	128,096	128,096	-	914,790	14.00%
2018	280,310	280,310	-	936,748	29.92%
2019	246,279	246,279	-	1,072,748	22.96%
2020	249,036	249,036	-	1,100,000	22.64%
2021	265,990	265,990	-	1,140,564	23.32%

CHESTER 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, 2021
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	12 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	None assumed

CHESTER TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

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Township Manager

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