

COMPLIANCE AUDIT

East Whiteland Township Firefighters' Pension Plan Chester County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

September 2019



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov**

**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
East Whiteland Township
Chester County
Frazer, PA 19355

We have conducted a compliance audit of the East Whiteland Township Firefighters' Pension Plan for the period January 1, 2015 to December 31, 2018. 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 the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, 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.

East Whiteland 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 East Whiteland Township Firefighters' 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 objective, 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 objective.

The results of our procedures indicated that, in all significant respects, the East Whiteland Township Firefighters' Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 a decline of assets available to satisfy the long-term liabilities of the plan. **The plan's funded ratio went from 73.4% as of January 1, 2015, to a ratio of 67.5% as of January 1, 2017, which is the most recent data available.** We encourage township officials to monitor the funding of the firefighter's pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of East Whiteland 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.

September 11, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information	3
Report Distribution List	9

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 East Whiteland Township Firefighters' 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.

The East Whiteland Township Firefighters' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 172-2005, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its firefighters. The plan was established July 1, 1974. Active members are required to contribute 5 percent of monthly compensation to the plan. As of December 31, 2018, the plan had 10 active members, 1 terminated member eligible for vested benefits in the future, and no retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 50 and 25 years of service.

Early Retirement 20 years of service.

Vesting 100% after 10 years of service.

Retirement Benefit:

Benefit equals 50% of the average monthly compensation over the participant's last 36 months of employment.

Survivor Benefit:

None

Service Related Disability Benefit:

A participant who is not vested shall receive the accrued retirement benefit determined at the date of disability. The disability benefit shall commence at the normal retirement date.

EAST WHITELAND TOWNSHIP FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 3 through 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 YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 63,203	\$ 74,371	\$ 77,718	\$ 104,120	\$ 108,805
Interest	100,074	125,776	141,038	175,151	196,448
Difference between expected and actual experience	-	172,510	-	121,576	-
Changes of assumptions	-	79,132	-	88,108	-
Net Change in Total Pension Liability	<u>163,277</u>	<u>451,789</u>	<u>218,756</u>	<u>488,955</u>	<u>305,253</u>
Total Pension Liability – Beginning	<u>1,187,724</u>	<u>1,351,001</u>	<u>1,802,790</u>	<u>2,021,546</u>	<u>2,510,501</u>
Total Pension Liability – Ending (a)	<u>\$ 1,351,001</u>	<u>\$ 1,802,790</u>	<u>\$ 2,021,546</u>	<u>\$ 2,510,501</u>	<u>\$ 2,815,754</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 85,251	\$ 75,802	\$ 85,040	\$ 106,494	\$ 105,280
Contributions – member	31,575	40,175	39,710	41,742	47,067
Net investment income	62,845	(13,348)	102,715	249,967	(158,677)
Administrative expense	-	-	-	(6,575)	(5,920)
Net Change in Plan Fiduciary Net Position	<u>179,671</u>	<u>102,629</u>	<u>227,465</u>	<u>391,628</u>	<u>(12,250)</u>
Plan Fiduciary Net Position – Beginning	<u>996,730</u>	<u>1,176,401</u>	<u>1,279,030</u>	<u>1,506,495</u>	<u>1,898,123</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 1,176,401</u>	<u>\$ 1,279,030</u>	<u>\$ 1,506,495</u>	<u>\$ 1,898,123</u>	<u>\$ 1,885,873</u>
Net Pension Liability – Ending (a-b)	<u>\$ 174,600</u>	<u>\$ 523,760</u>	<u>\$ 515,051</u>	<u>\$ 612,378</u>	<u>\$ 929,881</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.08%	70.95%	74.52%	75.61%	66.98%
Estimated Covered Employee Payroll	\$ 584,467	\$ 619,306	\$ 801,110	\$ 835,655	\$ 945,635
Net Pension Liability as a Percentage of Covered Employee Payroll	29.87%	84.57%	64.29%	73.28%	98.33%

EAST WHITELAND TOWNSHIP FIREFIGHTERS' 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, 2016, 2017, and 2018, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/15	\$ 794,846	\$ 523,760	\$ 296,114
Net Pension Liability – 12/31/16	\$ 794,802	\$ 515,051	\$ 275,231
Net Pension Liability – 12/31/17	\$ 972,893	\$ 612,378	\$ 310,702
Net Pension Liability – 12/31/18	\$ 1,316,228	\$ 929,881	\$ 605,816

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	\$ 85,251	\$ 85,251	\$ -	\$ 584,467	14.59%
2015	75,802	75,802	-	619,306	12.24%
2016	85,040	85,040	-	801,110	10.62%
2017	106,494	106,494	-	835,655	12.74%
2018	105,280	105,280	-	945,635	11.13%

EAST WHITELAND TOWNSHIP FIREFIGHTERS' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(8.10%)
2017	16.09%
2016	7.83%
2015	(0.71%)
2014	6.58%

EAST WHITELAND TOWNSHIP FIREFIGHTERS' 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, 2013, 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)
01-01-13	\$ 745,740	\$ 1,039,551	\$ 293,811	71.7%
01-01-15	1,176,401	1,602,642	426,242	73.4%
01-01-17	1,506,495	2,231,230	724,735	67.5%

EAST WHITELAND TOWNSHIP FIREFIGHTERS' 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.

EAST WHITELAND TOWNSHIP FIREFIGHTERS' 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, 2017
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

EAST WHITELAND TOWNSHIP FIREFIGHTERS' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Susan Drummond
Chairperson, Board of Township Supervisors

Mr. Scott Lambert
Vice Chairman, Board of Township Supervisors

Mr. Richard Orlow
Township Supervisor

Mr. John Nagel
Township Manager

Ms. Cathy Kleponis
Director of Finance

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.