

COMPLIANCE AUDIT

East Whiteland Township Non-Uniformed 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 Non-Uniformed 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 whether retirement benefits calculated for all nine of the plan members who retired 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for both of the plan members who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- 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 Non-Uniformed 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 Non-Uniformed 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.

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 13, 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 Non-Uniformed 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 Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 8-2014, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established July 1, 1974. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 18 active members, 3 terminated members eligible for vested benefits in the future, and 17 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 For participants represented by a collective bargaining unit and hired prior to 1/1/2006, the normal retirement date is age 65 and 10 years of service. For participants not represented by a collective bargaining unit and hired prior to 1/1/2006, the normal retirement date is age 63 and 10 years of service. For all other participants hired on or after 1/1/2006, the normal retirement date is age 65 and 10 years of service.
- Early Retirement Age 55 and 10 years of service.
- Vesting For participants hired on or after 1/1/2006, none for the first 10 years of service; thereafter 100%. For participants hired prior to 1/1/2006, 50% after 5 full years of service; thereafter, 10% per year until 100% vested after 10 years.

Retirement Benefit:

If hired prior to 1/1/2006, the monthly pension shall be equal to 50% of the average compensation over the participant's last 36 months of employment. If hired on or after 1/1/2006, the monthly pension shall be equal to 2% of the average compensation over the participant's last 60 months of employment multiplied by completed years and months of service.

Survivor Benefit:

None

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 age.

EAST WHITELAND TOWNSHIP NON-UNIFORMED 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	\$ 200,683	\$ 212,639	\$ 222,208	\$ 195,670	\$ 204,475
Interest	408,335	436,841	464,896	535,962	580,830
Change of benefit terms	-	206,882	-	-	-
Difference between expected and actual experience	-	(97,094)	-	650,497	-
Changes of assumptions	-	195,578	-	-	-
Benefit payments, including refunds of member contributions	(189,726)	(222,241)	(235,630)	(527,814)	(495,760)
Net Change in Total Pension Liability	419,292	732,605	451,474	854,315	289,545
Total Pension Liability – Beginning	4,998,365	5,417,657	6,150,262	6,601,736	7,456,051
Total Pension Liability – Ending (a)	<u>\$ 5,417,657</u>	<u>\$ 6,150,262</u>	<u>\$ 6,601,736</u>	<u>\$ 7,456,051</u>	<u>\$ 7,745,596</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 372,463	\$ 343,163	\$ 344,313	\$ 231,309	\$ 220,482
Contributions – member	78,161	84,401	94,056	77,137	74,810
Net investment income	276,723	(55,752)	374,989	928,341	(493,932)
Benefit payments, including refunds of member contributions	(189,726)	(222,241)	(235,630)	(527,814)	(495,760)
Administrative expense	-	-	-	(9,550)	(13,425)
Net Change in Plan Fiduciary Net Position	537,621	149,571	577,728	699,423	(707,825)
Plan Fiduciary Net Position – Beginning	4,527,582	5,065,203	5,214,774	5,792,502	6,491,925
Plan Fiduciary Net Position – Ending (b)	<u>\$ 5,065,203</u>	<u>\$ 5,214,774</u>	<u>\$ 5,792,502</u>	<u>\$ 6,491,925</u>	<u>\$ 5,784,100</u>
Net Pension Liability – Ending (a-b)	<u>\$ 352,454</u>	<u>\$ 935,488</u>	<u>\$ 809,234</u>	<u>\$ 964,126</u>	<u>\$ 1,961,496</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	93.49%	84.79%	87.74%	87.07%	74.68%
Estimated Covered Employee Payroll	\$ 1,529,999	\$ 1,681,050	\$ 1,560,708	\$ 1,402,439	\$ 1,315,976
Net Pension Liability as a Percentage of Covered Employee Payroll	23.04%	55.65%	51.85%	68.75%	149.05%

EAST WHITELAND TOWNSHIP NON-UNIFORMED 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability – 12/31/15	\$ 1,514,468	\$ 935,488	\$ 427,041
Net Pension Liability – 12/31/16	\$ 1,392,998	\$ 809,234	\$ 296,507
Net Pension Liability – 12/31/17	\$ 1,661,025	\$ 964,126	\$ 357,655
Net Pension Liability – 12/31/18	\$ 2,668,522	\$ 1,961,496	\$ 1,333,848

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	\$ 372,463	\$ 372,463	\$ -	\$1,529,999	24.34%
2015	343,163	343,163	-	1,681,050	20.41%
2016	344,313	344,313	-	1,560,708	22.06%
2017	231,309	231,309	-	1,402,439	16.49%
2018	220,482	220,482	-	1,315,976	16.75%

EAST WHITELAND TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(7.82%)
2017	16.33%
2016	7.85%
2015	(0.71%)
2014	6.58%

EAST WHITELAND TOWNSHIP NON-UNIFORMED 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	\$ 3,545,828	\$ 4,530,683	\$ 984,855	78.3%
01-01-15	5,065,203	5,516,141	450,938	91.8%
01-01-17	5,797,355	7,252,233	1,454,878	79.9%

EAST WHITELAND TOWNSHIP NON-UNIFORMED 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 NON-UNIFORMED 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	7 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 NON-UNIFORMED 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.