COMPLIANCE AUDIT

Kennett Township
Non-Uniformed Pension Plan

Chester County, Pennsylvania

For the Period
January 1, 2018 to December 31, 2021

December 2022

Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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

TIMOTHY L. DEFOOR
AUDITOR GENERAL

Board of Township Supervisors
Kennett Township
Chester County
Chadds Ford, PA 19317

We have conducted a compliance audit of the Kennett Township Non-Uniformed 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 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 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 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.

- We determined whether retirement benefits calculated for plan members who retired or elected to vest during the current audit period, and through the completion of our fieldwork procedures, 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 and payable to the recipients.

- We determined whether the January 1, 2017, and January 1, 2019, actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020 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.

The Kennett Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Annual Comprehensive Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Kennett Township Non-Uniformed 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 objectives.

The results of our procedures indicated that, in all significant respects, the Kennett Township Non-Uniformed 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 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Finding No. 2 – Partial Compliance With Prior Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Finding No. 4 – Failure To Implement Mandatory Provisions Of Act 205

Finding Nos. 1 and 2 contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported 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 Kennett Township and, where appropriate, their responses have been included in the report.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
November 30, 2022

CONTENTS

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 Kennett Township Non-Uniformed 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974 (P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Kennett Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 214, and a separately executed plan agreement with the plan custodian, effective January 1, 2014, adopted pursuant to Act 15. The plan was established August 1, 1975. Active members are not required to contribute to the plan; however, may optionally contribute of up to, but no more than 20 percent of compensation. As of December 31, 2021, the plan had 14 active members, 2 terminated members eligible for vested benefits in the future, and 6 retirees receiving pension benefits.

KENNETT TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Partial Compliance With Prior Recommendations

Kennett Township has partially complied with the prior recommendations concerning the following:

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

  During the current audit period, the township reimbursed $4,939 to the Commonwealth for the overpayment of state aid in 2017; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data as further discussed in the Findings and Recommendations section of this report; and

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

  After reevaluating the MMOs contained in the prior audit finding based on additional documentation resulting from a forensic audit conducted as provided by the township, it was determined that the 2015 and 2016 MMOs were actually determined and paid on authorized payroll amounts and require no additional action. However, for 2017 and 2018 MMOs, payroll amounts were still found to be underestimated as further discussed in the Findings and Recommendations section of this report.

Finding No. 1 – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In A Net Overpayment Of State Aid

Condition: As disclosed in Status of Prior Findings section of this report, the township partially complied with the prior recommendation by reimbursing the Commonwealth for the overpayment of state aid received in 2017; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the years 2019, 2020 and 2021. The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by $41,040 on the Certification Form AG 385 filed in 2019. In addition, the township certified an ineligible police officer (2 units), failed to certify an eligible non-uniformed employee (1 unit) and overstated total eligible payroll by $2,664 on the Certification Form AG 385 filed in 2020. Furthermore, the township certified four ineligible non-uniformed employees (4 units) and overstated payroll by $176,096 on the Certification Form AG 385 filed in 2021. The data contained on this certification form is 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. In addition, the non-uniformed pension plan document contains a more stringent requirement for participation in the nonuniformed pension plan.

Section 1.71 of the plan's separately executed plan agreement, indicates the following:

> Plan Entry Date. After completion of Eligibility Criteria under Section 2.01.

Section 2.10, states the following:

> Membership Eligibility. Eligibility Date is the date on which the employee completes twelve months of Eligibility Service.

Cause: Plan officials were unsure which pension plan the police department's secretary should be certified under during 2019 and did not take into account the plan's probationary period regarding eligibility of non-uniformed employees newly entering the pension plan during 2021. Additionally, the township failed to establish adequate internal control procedures, such as having another individual review the data certified, to ensure the accuracy of the reported pension data.

Finding No. 1 – (Continued)

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:

Year	Type Of Plan	Units Overstated (Understated)	Unit Value	State Aid Overpayment (Underpayment)
2019	Non-Uniformed	(1)	$ 5,120	$ (5,120)
2020	Police	2	4,924	9,848
	Non-Uniformed	(1)	4,924	(4,924)
			Total 2020	4,924
2021	Non-Uniformed	4	4,797	19,188
		Net Overpayment of State Aid		$ 18,992

In addition, the township used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the non-uniformed 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.

Recommendation: We recommend that the overpayment of state aid, in the amount of $18,992, 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 two 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.

Finding No. 1 – (Continued)

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Management's Response: The township provided the following response:

> The Township was not provided a detailed write-up of the finding from the Auditor General's office and therefore cannot write an exact response. It was discussed verbally at the exit conference. Our response is based on the verbal discussion. There were some mistakes in preparation of the AG 385 under both the former administration and the new administration. New controls have been introduced where the AG 385 form is more carefully reviewed by multiple parties.

- In 2019, the Police administrative assistant was mistakenly reporting [*sic*] with Police rather than Non-uniform. While she was an employee of the Police Department, she falls under the Non-Uniform Pension.

- In 2020: This report is due March 31 of each year. Therefore, it was completed just as COVID hit and immediately after our HR Specialist joined the team. [An individual], who left the Township in January of 2020, was not included. While she was no longer at the Township, she should have been on the AG 385. This offsets the 2019 error. *(Note: The individual's name included by the township in their response was not included above per department policy)*

- In 2021, four team members that joined in 2020 were included on the AG 385 submission. Under our plan, employees are not eligible for the Pension Plan until they complete a year of service. Therefore, they should not have been on the submission. The 1-year lag/probationary period caused confusion amongst the team on which reports they should and shouldn't be included on. We have clarified the rules for each form to ensure compliance going forward and have introduced more controls in the forms of reviews/approval by multiple parties.

Auditor's Conclusion: Compliance will be monitored subsequent to the release of the audit report and through our next audit of the pension plan.

Finding No. 2 – Partial Compliance With Prior Recommendation – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: As disclosed in the prior audit report, plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the non-uniformed pension plan for the year 2016, as required by Act 205. In addition, the municipality did not fully pay the required MMO that was due to the pension plan for the years 2015, 2017, and 2018, as required by Act 205. Based upon an estimate prepared by this department, the municipality had a total unpaid MMO balance amounting to $83,105 for the years 2015, 2016, 2017, and 2018. It was noted in the Status of Prior Findings section of this report that after re-evaluating the MMOs contained in the prior audit finding resulting from a forensic audit conducted by the township, it was determined that the 2015 and 2016 MMOs were determined and paid on authorized payroll amounts and therefore, required no additional action. However, regarding the 2017 and 2018 MMOs, payroll amounts were still found to be underestimated. Based on estimates prepared by this department from documentation provided by the township, the 2017 and 2018 MMOs underestimated payroll by $285,447 and $238,842, resulting in unpaid MMO balances amounting to $24,035 in 2017 and $20,050 in 2018, respectively, which should be deposited into the pension plan in accordance with Act 205.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

> Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

> The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year's end using the payroll rates in effect as of the date of the determination.

Section 302(d) of Act 205 states, in part:

> The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

<u>Finding No. 2 – (Continued)</u>

Furthermore, Section 302(e) of Act 205 states:

> Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

<u>Cause</u>: Through a forensic audit performed by a certified public accounting firm during 2019, it was determined that the prior township manager had manipulated the township's finances in order to receive additional compensation for which the individual was not entitled. However, municipal officials failed to recalculate the plan's 2015 through 2018 MMOs based on the payroll information provided in the forensic report and determine the impact of the revised payroll data on the department's prior audit recommendation, accordingly.

<u>Effect</u>: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to properly determine and/or fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to fully pay the 2017 and 2018 MMOs by the December 31, deadlines, the municipality must add the outstanding MMO balances to the current year's MMO and include interest, as required by Act 205.

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

<u>Recommendation</u>: We recommend that the municipality pay the outstanding MMO balances due to the non-uniformed pension plan for the years 2017 and 2018, $44,085, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

In addition, we recommend that, in the future, plan officials properly determine payroll amount used in the MMO calculation, as aforementioned in the Criteria section above, and pay the full MMO due the plan in accordance with Act 205.

<u>Finding No. 2 – (Continued)</u>

Furthermore, we recommend that the township implement adequate oversight procedures, such as having another individual review the data utilized in the annual MMO determination, to ensure propriety of the annual MMO amounts prior to approval and payment.

<u>Management's Response</u>: The township provided the following response:

> This finding is a repeat of the finding from the audit done just before former manager was dismissed for embezzling $3.2M from the Township, and reviewed with the Interim Township Manager, before the current management team joined. [*sic*] There was an informal agreement with management from the Auditor General's office that this item would be held until the forensic auditor findings were available. This was not transitioned to the current management team and never resolved nor paid. The Township agrees with the adjusted results and will make payment as soon as we have the interest calculation from PMRS. *(Note: The individuals' names included by the township in their response were not included above per department policy)*

<u>Auditor's Conclusion</u>: Based on the management response, since the results of the forensic audit are known, and the Township concurs with the adjusted MMO results and agrees to make payment as soon as the interest calculation is provided by the custodian, compliance will be subject to verification during the next audit of the plan.

Finding No. 3 – Inadequate Accounting/Reporting Over Activity Of The Pension Plan

Condition: The municipality's accounting/reporting system did not provide effective control over the transactional activity of the pension plan during the year 2021. Municipal officials were unable to furnish annual financial statements or custodial account statements summarizing the financial activity of its pension plan.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans. In addition, assets held in a custodial account for the purpose of plan management are to be governed by the terms and provisions of the account contract, provided that the terms and provisions of the contract are within the parameters of all prevailing pension legislation. Although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality.

Cause: Municipal officials did not maintain a separate detailed accounting of pension plan transactions which, among other things, helps assure the production of proper financial statements to effectively monitor the annual activity of the pension plan. Additionally, municipal officials indicated that the plan's custodian failed to provide copies of the custodial account transaction statements summarizing activity of the pension plan account for the year 2021.

Effect: Although we were able to obtain alternate documentation from the municipality to evidence the propriety of individual transactions tested during performance of the audit, the failure to maintain annual financial and/or account transaction statements prohibits municipal officials from effectively monitoring the plan's financial operations and could lead to undetected errors or improprieties in account transactions.

Recommendation: We recommend that municipal officials establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitor the plan's financial operations, even in the absence of statements from the plan custodian. Municipal officials should refer to the Auditor General's Bulletin No. 2-88 entitled "Preparation, Maintenance and Auditability of Financial Records," for further guidance in establishing adequate accounting and record-keeping procedures. In addition, we recommend that municipal officials contact the plan custodian and obtain annual financial statements of the custodial account for its pension plan for the year 2021 to ensure the accuracy and propriety of the transaction activity.

Finding No. 3 – (Continued)

Management's Response: The township provided the following response:

> This finding is related to services provided by the Pennsylvania Municipal Retirement System (PMRS) who is the pension administrator for the Township. PMRS has had major disruptions to services provided and has been working with municipalities and the Auditor General on a schedule to catch up and resume normal services. Every municipality using PMRS will receive this finding. Given that it is out of control of the municipality, the Township strongly objects to this finding. The finding states that the auditor did in fact receive alternate data to perform the audit, however, still says that the municipalities should "establish and maintain a financial accounting and reporting system that allows the municipality to effectively monitors the plan's financial operations." Given that the data was provided, the Township was able to monitor the financial operations. This finding lacks professional justification and is beyond the control of every municipality with this finding. The Township will review the remaining challenges with PMRS, determine where they stand in rectifying the issue and determine if additional procedures or controls are needed.

Auditor's Conclusion: As aforementioned earlier in this report, the department's authority to audit every municipality which receives general municipal pension system state aid is derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)). The department does not have the authority to audit the plan custodians. And as indicated in the Criteria above, although the municipality may contract with a trustee to administer the financial management of the plan, the fiduciary responsibility for the plan remains with the municipality. For 2021, although the township cites that, "…the data was provided, the Township was able to monitor financial operations." without year-end custodial account statements or financial statements summarizing the annual fund balance and the annual financial activity of the plan *(state aid, employer contributions, member contributions, interest, benefit, retiree reserve transfers, administrative expenses, etc.)* that occurred during 2021, the department disagrees with management's assertion. The mitigating documentation provided by the township or obtained from the custodian, afforded the department the opportunity to perform the compliance aspects of the engagement. However, the issue remains as stated.

It was noted that the plan custodian recently went through a substantial upgrade to the plan administration software and implemented a new accounting system. The modernization process, along with the COVID-19 pandemic, resulted in unforeseen delays in the year-end reporting process for financial statements and GASB 68 reports. In addition, the custodian has taken active measures to resolve these issues and expects 2021 financial reports to be distributed before the end of 2022. Compliance with the finding recommendation will be evaluated during our next audit of the plan.

Finding No. 4 – Failure To Implement Mandatory Provisions Of Act 205

Condition: During the prior audit, plan officials were notified of the passage of Act 44 of 2009, which effectively amended Act 205 for the procurement of professional services contracts, but failed to adopt such mandatory provisions.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a "Professional Services Contract", as follows:

> "Professional services contract." A contract to which the municipal pension system is a party that is:
> (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
> (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states, in part:

> Each municipal pension system … shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

> **Review.** Procedures to select the most qualified person shall include a review of the person's qualifications, experience and expertise and the compensation to be charged.
>
> **Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.
>
> **Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

Finding No. 4 – (Continued)

> **Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the processional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states, in part:

> Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate internal controls procedures to ensure compliance with provisions of Act 205 as previously recommended.

Effect: The township's failure to adopt the required provisions stipulated in Act 205 regarding the procurement of professional investment and advisory services for the pension plan could result in a general lack of overall transparency of the proposed actions to be taken by plan officials relative to the awarding of future investment and advisory service contracts for the plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

Management Response: Municipal officials were notified of the finding on November 15, 2022, and a management response was requested. However, as of the date of this report, no such response has been provided. The failure to provide a response does not preclude the township from providing a response upon receipt of this report.

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

KENNETT TOWNSHIP NON-UNIFORMED PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the township in the amount of $18,992, plus interest and Finding No. 2 contained in this report repeats a condition which was cited in the prior audit report that has not been corrected. Conditions of this nature may lead to a total withholding of state aid in the future unless those findings are 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.

In addition, such action will not be considered if sufficient written documentation is provided to verify compliance with this department's recommendations. Such documentation should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

KENNETT 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, 2015, 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)
01-01-15	$ 1,014,288	$ 1,392,841	$ 378,553	72.8%
01-01-17	1,368,668	1,936,909	568,241	70.7%
01-01-19	1,788,022	2,189,782	401,760	81.7%

Note: The information presented represents the most recently filed actuarial information available and although the actuarial valuation report valued 1-1-21 is currently due in accordance with Act 205, the municipality is working with the Municipal Reporting Program as of the date of this report to finalize the information submitted.

KENNETT 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.

KENNETT TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

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	$ 69,061	69,081	$ (20)	$ 540,668	12.78%
2015	81,631	81,651	(20)	938,579	8.70%
2016	94,721	94,781	(60)	1,031,206	9.19%
2017	102,232	102,252	(20)	1,047,387	9.76%
2018	115,536	115,576	(40)	1,159,026	9.97%
2019	192,053	178,879	(13,174)	1,084,678	16.49%
2020	164,454	164,474	(20)	555,884	29.59%
2021	116,545	116,545	-		

* Due to the timing of this audit, covered-employee payroll for 2021 was not provided in this schedule.

KENNETT 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar for plan bases and an average for Aggregate Gain/Loss, 10% of surplus is credited against aggregate cost where applicable.
Remaining amortization period	7 years
Asset valuation method	The Actuarial Value of Assets equal the sum of all audited reserve funds as of the valuation date, including Member, Municipal, Retired, Disability, and DROP Reserves, when applicable, and a one year administration expense reserve, plus the portion of any additional investment income to be distributed as excess interest, based on PMRS Policy Statement 05-2. This asset valuation is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law.[1]
Actuarial assumptions:	
Investment rate of return *	5.25%, compounded annually, net of investment and administration expenses
Projected salary increases *	2.8%-7.05%
* Includes inflation at	2.8%
Cost-of-living adjustments	2.8% per year, subject to plan limitations

The information presented represents the most recently filed actuarial information available and although the actuarial valuation report valued 1-1-21 is currently due in accordance with Act 205, the municipality is working with the Municipal Reporting Program as of the date of this report to finalize the information submitted.

---

[1] The administrative rules adopted by the PMRS Board, which are not subject to comply with Actuarial Standards of Practice (ASOP), when defining the Actuarial Value of Assets (AVA), does not necessarily meet the requirement of ASOP 44 Selection and Use of Asset Valuation Methods for Pension Valuations. The AVA provided within this report follow the Pennsylvania Municipal Retirement Law and the PMRS policy statement.

KENNETT 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

Dr. Richard L. Leff
Chairman, Board of Township Supervisors

Mr. Scudder G. Stevens
Vice-Chairman, Board of Township Supervisors

Mr. Geoffrey Gamble
Township Supervisor

Mr. Eden R. Ratliff
Township Manager

Ms. Amy Heinrich
Finance Director

Mr. Richard Cardamone, CPA, CGMA
Pennsylvania Municipal Retirement System

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.