

COMPLIANCE AUDIT

Valley Township Non-Uniformed Pension Plan Chester County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

April 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Board of Township Supervisors
Valley Township
Chester County
Coatesville, PA 19320

We have conducted a compliance audit of the Valley Township Non-Uniformed Pension Plan for the period January 1, 2016 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 finding contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.

- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.
- We determined 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 both of the plan members who retired 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 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, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 2018, and 2020, 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Valley 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 objectives, and assessed whether those significant controls were properly designed and

implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical procedures, and interviewed selected officials to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.


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

Finding – Partial Compliance With Prior Audit Recommendation -
Incorrect Data On Certification Form AG 385 Resulting In An
Underpayment Of State Aid

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 Valley 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.

March 18, 2020


EUGENE A. DEPASQUALE
Auditor General

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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. 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 Valley 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 Valley Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2012-07, 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 January 1, 1985. Active members are not required to contribute to the plan. As of December 31, 2019, the plan had 15 active members, 6 terminated members eligible for vested benefits in the future, and 3 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2019, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 65

Early Retirement None

Vesting A member is 20% vested after 3 years of service, plus 20% per year thereafter, up to 100%.

Retirement Benefit:

Benefit equals 1.75% of average compensation (monthly average of the 5 consecutive years out of the final 10 years prior to normal retirement date, which gives the highest average) multiplied by accrual service.

Survivor Benefit:

A monthly annuity payable immediately equal to the amount that would have been paid had the participant terminated employment on date of death and survived to earliest retirement date, retired with a qualified joint and 50% survivor annuity in effect, then died the next day.

VALLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Audit Recommendation

Valley Township has partially complied with the prior audit recommendation 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 \$4,058 to the Commonwealth for the overpayment of state aid received in 2015; however, plan officials failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in 2018 and 2019, as further discussed in the Finding and Recommendation section of this report.

VALLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Partial Compliance With Prior Audit Recommendation - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, although the township partially complied with the prior audit recommendation by returning the overpayment of state aid received in 2015 to the Commonwealth, a similar condition occurred during the current audit period. 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 2018 and 2019.

During the current audit period, the township failed to certify 1 eligible police officer and understated payroll by \$57,721 on the Certification Form AG 385 filed in 2018. In addition, the township failed to certify 1 eligible non-uniformed employee and understated payroll by \$42,891 on the Certification Form AG 385 filed in 2019. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: The township’s failure to include the eligible employees was attributed to clerical oversights.

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 pension costs, the township received an underpayment of state aid of \$14,154, as identified below:

<u>Year</u>	<u>Type of Plan</u>	<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
2018	Police	15.50669%	\$ 57,721	\$ 8,951
2019	Non-Uniformed	12.13000%	\$ 42,891	<u>\$ 5,203</u>
Total Underpayment of State Aid				<u><u>\$ 14,154</u></u>

Although the additional state aid will be allocated to the township, the full amount of the 2018 and 2019 state aid allocations was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

VALLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again 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.

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

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

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

The supplementary information contained on Pages 6 through 8 reflects the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans*. The objective of this statement is to improve financial reporting by state and local governmental pension plans.

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 75,192	\$ 56,358	\$ 59,035	\$ 79,956	\$ 83,754
Interest	90,684	90,581	98,667	102,025	113,339
Difference between expected and actual experience	-	(162,985)	-	(115,859)	-
Changes of assumptions	-	41,270	-	5,772	-
Benefit payments, including refunds of member contributions	(24,116)	(29,707)	(20,725)	(13,012)	(10,441)
Net Change in Total Pension Liability	<u>141,760</u>	<u>(4,483)</u>	<u>136,977</u>	<u>58,882</u>	<u>186,652</u>
Total Pension Liability - Beginning	1,332,003	1,473,763	1,469,280	1,606,257	1,665,139
Total Pension Liability - Ending (a)	<u>\$ 1,473,763</u>	<u>\$ 1,469,280</u>	<u>\$ 1,606,257</u>	<u>\$ 1,665,139</u>	<u>\$ 1,851,791</u>
Plan Fiduciary Net Position					
Contributions - Employer	\$ 20,604	\$ 32,794	\$ 14,181	\$ 10,854	\$ 12,398
Contributions - State Aid	60,627	57,729	68,670	83,021	62,650
Net investment income	49,065	(21,139)	58,441	154,005	(84,069)
Benefit payments, including refunds of member contributions	(24,116)	(29,707)	(20,725)	(13,012)	(10,441)
Administrative expense	(5,375)	(5,750)	(6,675)	(6,250)	(5,875)
Net Change in Plan Fiduciary Net Position	<u>100,805</u>	<u>33,927</u>	<u>113,892</u>	<u>228,618</u>	<u>(25,337)</u>
Plan Fiduciary Net Position - Beginning	1,192,374	1,293,179	1,327,106	1,440,998	1,669,616
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,293,179</u>	<u>\$ 1,327,106</u>	<u>\$ 1,440,998</u>	<u>\$ 1,669,616</u>	<u>\$ 1,644,279</u>
Net Pension Liability - Ending (a-b)	<u>\$ 180,584</u>	<u>\$ 142,174</u>	<u>\$ 165,259</u>	<u>\$ (4,477)</u>	<u>\$ 207,512</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.7%	90.3%	89.7%	100.3%	88.8%
Estimated Covered Employee Payroll	\$ 525,669	\$ 598,955	\$ 596,265	\$ 682,390	\$ 660,037
Net Pension Liability as a Percentage of Covered Employee Payroll	34.4%	23.7%	27.7%	(0.7%)	31.4%

VALLEY 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, 2014, 2015, 2016, 2017, and 2018, calculated using the discount rate of 6.5%, 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 (5.5%)	Current Discount Rate (6.5%)	1% Increase (7.5%)
Net Pension Liability - 12/31/14	\$ 389,397	\$ 180,584	\$ 2,966
Net Pension Liability - 12/31/15	\$ 354,102	\$ 142,174	\$ (36,295)
Net Pension Liability - 12/31/16	\$ 389,204	\$ 165,259	\$ (23,946)
Net Pension Liability - 12/31/17	\$ 238,295	\$ (4,477)	\$ (208,808)
Net Pension Liability - 12/31/18	\$ 468,955	\$ 207,512	\$ (12,922)

VALLEY 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
2010	\$ 95,189	\$ 96,608	\$ (1,419)	\$ 547,773	17.6%
2011	92,846	96,051	(3,205)	530,953	18.1%
2012	94,842	94,842	-	553,431	17.1%
2013	99,201	99,201	-	584,348	17.0%
2014	81,231	81,231	-	525,669	15.5%
2015	90,523	90,523	-	598,955	15.1%
2016	82,851	82,851	-	596,265	13.9%
2017	93,875	93,875	-	682,390	13.8%
2018	75,048	75,048	-	660,037	11.4%
2019	79,551	79,551	-	*	

* Due to the timing of this audit, covered-employee payroll for 2019 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.03%)
2017	10.73%
2016	4.44%
2015	(1.63%)
2014	4.13%

VALLEY 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 Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-15	\$ 1,333,826	\$ 1,352,048	\$ 18,222	98.7%
01-01-17	1,546,982	1,496,170	(50,812)	103.4%
01-01-19	1,798,378	1,659,231	(139,147)	108.4%

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 to 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

VALLEY 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.

VALLEY 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	Not applicable
Remaining amortization period	None
Asset valuation method	5-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.75%

VALLEY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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