

COMPLIANCE AUDIT

West Whiteland Township Non-Uniformed Pension Plan Chester County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

March 2020



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
West Whiteland Township
Chester County
Exton, PA 19341

We have conducted a compliance audit of the West 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 finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

The objective of the audit was to determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objective identified above. To determine whether the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, our methodology included the following:

- We determined whether state aid was properly determined and deposited in accordance with Act 205 requirements by verifying the annual deposit date of state aid and determining whether deposits were made within 30 days of receipt for all years within the period under audit.
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing these calculated amounts to amounts actually budgeted and deposited into the pension plan as evidenced by supporting documentation.

- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan.
- We determined whether retirement benefits calculated for all six 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 the plan member who elected to vest during the current audit period represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

West Whiteland Township contracted with an independent certified public accounting firm for annual audits of the West Whiteland Township Non-Uniformed Pension Plan's financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West 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 West Whiteland 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 – 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 West 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.

March 20, 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 West 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 West Whiteland Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 366, as amended. The plan was established May 4, 1981. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 29 active members, 4 terminated members eligible for vested benefits in the future, and 15 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 65
Early Retirement	Age 62 and 10 years of service.
Vesting	A member is 100% vested after 10 years of service.

Retirement Benefit:

Benefit equals 1.5% of average monthly pay based on highest 3 years of last 10 years plus 0.5% of average monthly pay in excess of \$1,000, times years of service.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

If participant has completed 10 years of full-time employment and is eligible for a disability pension under the Federal Social Security Act then the benefit is based on the normal retirement formula.

WEST WHITELAND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The township failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$17,977 on the Certification Form AG 385 filed in 2018, and failed to certify 2 eligible non-uniformed employees (2 units) and understated payroll by \$80,851 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 failure to certify the eligible employees is attributed to an oversight and lack of appropriate supervisory overview of the data certified to ensure compliance with the instructions that accompany Certification Form AG 385 and to assist in accurately reporting the pension data.

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 township received an underpayment of state aid of \$14,926 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2018	1	\$ 4,684	\$ 4,684
2019	2	\$ 5,121	<u>\$ 10,242</u>
Total Underpayment of State Aid			<u><u>\$ 14,926</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.

WEST WHITELAND TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We 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 Response: Municipal officials agreed with the finding without exception.

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

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

The supplementary information contained on Pages 5 through 7 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	\$ 158,027	\$ 174,375	\$ 182,220	\$ 190,318	\$ 198,882
Interest	403,386	421,628	451,059	502,622	530,721
Change of benefit terms	-	(84,453)	-	19,745	-
Changes of assumptions	-	152,705	-	554,863	-
Benefit payments, including refunds of member contributions	(238,586)	(179,290)	(216,517)	(297,829)	(302,344)
Net Change in Total Pension Liability	322,827	484,965	416,762	969,719	427,259
Total Pension Liability - Beginning	5,339,752	5,662,579	6,147,544	6,564,306	7,534,025
Total Pension Liability - Ending (a)	<u>\$ 5,662,579</u>	<u>\$ 6,147,544</u>	<u>\$ 6,564,306</u>	<u>\$ 7,534,025</u>	<u>\$ 7,961,284</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 76,501	\$ 76,271	\$ 65,927	\$ 88,290	\$ 135,959
Contributions - member	87,490	94,827	96,415	101,901	109,600
Net investment income	428,177	(39,035)	578,647	1,100,351	(398,447)
Benefit payments, including refunds of member contributions	(238,586)	(179,290)	(216,517)	(297,829)	(302,344)
Administrative expense	(6,182)	(13,787)	(10,801)	(12,575)	(8,189)
Net Change in Plan Fiduciary Net Position	347,400	(61,014)	513,671	980,138	(463,421)
Plan Fiduciary Net Position - Beginning	6,110,168	6,457,568	6,396,554	6,910,225	7,890,363
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,457,568</u>	<u>\$ 6,396,554</u>	<u>\$ 6,910,225</u>	<u>\$ 7,890,363</u>	<u>\$ 7,426,942</u>
Net Pension Liability - Ending (a-b)	<u>\$ (794,989)</u>	<u>\$ (249,010)</u>	<u>\$ (345,919)</u>	<u>\$ (356,338)</u>	<u>\$ 534,342</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	114.04%	104.05%	105.27%	104.73%	93.29%
Estimated Covered Employee Payroll	\$ 1,638,392	\$ 1,893,115	\$ 1,759,223	\$ 2,094,143	\$ 2,131,614
Net Pension Liability as a Percentage of Covered Employee Payroll	(48.52%)	(13.15%)	(19.66%)	(17.02%)	25.07%

WEST 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, 2014, 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 - 12/31/14	\$ (143,165)	\$ (794,989)	\$ (1,354,263)

In addition, the following presents the net pension liability of the township as of December 31, 2015 and 2016, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability - 12/31/15	\$ 443,071	\$ (249,010)	\$ (844,922)
Net Pension Liability - 12/31/16	\$ 372,010	\$ (345,919)	\$ (964,876)

Furthermore, the following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability - 12/31/17	\$ 496,945	\$ (356,338)	\$ (1,088,476)
Net Pension Liability - 12/31/18	\$ 1,413,924	\$ 534,342	\$ (221,285)

WEST WHITELAND 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	\$ 76,501	\$ 76,501	\$ -	\$1,638,392	4.67%
2015	76,271	76,271	-	1,893,115	4.03%
2016	65,927	65,927	-	1,759,223	3.75%
2017	63,337	88,290	(24,953)	2,094,143	4.22%
2018	135,959	135,959	-	2,131,614	6.38%

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.04%)
2017	11.87%
2016	6.28%
2015	(0.55%)
2014	7.13%

WEST 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	\$ 4,984,634	\$ 4,957,302	\$ (27,332)	100.6%
01-01-15	6,096,177	5,730,831	(365,346)	106.4%
01-01-17	7,094,433	7,138,914	44,481	99.4%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period subject to a corridor between 80 and 120 percent of the market value of assets. The market values of the plan's assets at 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses over a 4-year averaging period subject to a corridor between 80 and 120 percent of the market value of assets. These methods 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.

WEST 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.

WEST 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	12 years
Asset valuation method	4-year smoothing - plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

WEST WHITELAND TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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