

COMPLIANCE AUDIT

West Whiteland Township Police 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



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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 Police 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our 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 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 three 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, 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.
- 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.

West Whiteland Township contracted with an independent certified public accounting firm for annual audits of the West Whiteland Township Police 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 Police 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 West Whiteland Township Police 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 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 19, 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 Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The West Whiteland Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 362, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established December 25, 1975. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 20 active members, 3 terminated members eligible for vested benefits in the future, and 16 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly pay based on last 36 months, plus a service increment of \$20 for each year of service in excess of 25 years, up to a maximum of \$100 per month.

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:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

WEST WHITELAND TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Status of Prior Audit Recommendation

· Pension Benefits Not Authorized By Act 600

The audit report for the period January 1, 2012 to December 31, 2014, contained a finding stating that lump-sum payments for accumulated unused compensatory time that was not earned during the final 36 month averaging period was included in the determination of final average salary used to calculate monthly pension benefits for two police officers who entered the Deferred Retirement Option Plan (DROP) in 2015. The two officers are receiving excess benefits of approximately \$111 and \$315 per month, respectively. The township indicated that the payout of unused compensatory time in 2012 was a one-time occurrence resulting from revisions to its compensatory time program to effect compliance with IRS rules, and these were the only two officers affected. Since this one-time occurrence will not impact pension benefit calculations of future retirees, the finding will not be repeated in this audit report. The township received state aid based on unit value during the audit period and, therefore, did not receive state aid attributable to the excess benefits provided. The department will continue to monitor the impact of the excess benefits being paid to the existing retirees on the plan's future state aid allocations.

WEST WHITELAND TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 through 6 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	\$ 304,541	\$ 311,921	\$ 325,957	\$ 365,229	\$ 381,664
Interest	965,369	1,000,373	1,038,487	1,260,606	1,326,346
Change of benefit terms	-	(129,040)	-	(106,088)	-
Changes of assumptions	-	374,192	-	934,139	-
Benefit payments, including refunds of member contributions	<u>(573,679)</u>	<u>(617,878)</u>	<u>(715,287)</u>	<u>(636,961)</u>	<u>(638,221)</u>
Net Change in Total Pension Liability	696,231	939,568	649,157	1,816,925	1,069,789
Total Pension Liability - Beginning	<u>12,853,888</u>	<u>13,550,119</u>	<u>14,489,687</u>	<u>15,138,844</u>	<u>16,955,769</u>
Total Pension Liability - Ending (a)	<u>\$ 13,550,119</u>	<u>\$ 14,489,687</u>	<u>\$ 15,138,844</u>	<u>\$ 16,955,769</u>	<u>\$ 18,025,558</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 510,278	\$ 508,820	\$ 468,924	\$ 521,903	\$ 557,577
Contributions - member	119,013	113,955	110,706	116,507	123,382
Net investment income	895,845	(86,216)	1,192,538	2,269,516	(845,702)
Benefit payments, including refunds of member contributions	(573,679)	(617,878)	(715,287)	(636,961)	(638,221)
Administrative expense	<u>(10,222)</u>	<u>(14,371)</u>	<u>(13,920)</u>	<u>(14,135)</u>	<u>(4,455)</u>
Net Change in Plan Fiduciary Net Position	941,235	(95,690)	1,042,961	2,256,830	(807,419)
Plan Fiduciary Net Position - Beginning	<u>12,575,825</u>	<u>13,517,060</u>	<u>13,421,370</u>	<u>14,464,331</u>	<u>16,721,161</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 13,517,060</u>	<u>\$ 13,421,370</u>	<u>\$ 14,464,331</u>	<u>\$ 16,721,161</u>	<u>\$ 15,913,742</u>
Net Pension Liability - Ending (a-b)	<u>\$ 33,059</u>	<u>\$ 1,068,317</u>	<u>\$ 674,513</u>	<u>\$ 234,608</u>	<u>\$ 2,111,816</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.76%	92.63%	95.54%	98.62%	88.28%
Estimated Covered Employee Payroll	\$ 2,240,563	\$ 2,105,036	\$ 2,187,955	\$ 2,370,791	\$ 2,468,966
Net Pension Liability as a Percentage of Covered Employee Payroll	1.48%	50.75%	30.83%	9.90%	85.53%

WEST WHITELAND TOWNSHIP POLICE 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Net Pension Liability - 12/31/14	\$ 1,637,234	\$ 33,059	\$ (1,317,282)

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:

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Net Pension Liability - 12/31/15	\$ 2,794,746	\$ 1,068,317	\$ (384,313)
Net Pension Liability - 12/31/16	\$ 2,450,045	\$ 674,513	\$ (836,099)

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:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
Net Pension Liability - 12/31/17	\$ 2,269,070	\$ 234,608	\$ (1,470,095)
Net Pension Liability - 12/31/18	\$ 4,220,187	\$ 2,111,816	\$ 363,710

WEST WHITELAND TOWNSHIP POLICE 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	\$ 510,278	\$ 510,278	\$ -	\$2,240,563	22.77%
2015	508,820	508,820	-	2,105,036	24.17%
2016	468,924	468,924	-	2,187,955	21.43%
2017	459,349	521,903	62,554	2,370,791	22.01%
2018	557,577	557,577	-	2,468,966	22.58%

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.04%)
2017	11.71%
2016	6.22%
2015	(0.59%)
2014	7.06%

WEST WHITELAND TOWNSHIP POLICE 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	\$ 10,182,372	\$ 11,968,869	\$ 1,786,497	85.1%
01-01-15	12,819,974	13,795,271	975,297	92.9%
01-01-17	14,828,733	15,966,895	1,138,162	92.9%

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 POLICE 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 POLICE 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	5 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 POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Rajesh Kumbhardare
Chairman, Board of Township Supervisors

Ms. Theresa Santalucia
Vice Chairperson, Board of Township Supervisors

Mr. Joshua Anderson
Township Supervisor

Ms. Mimi Gleason
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Ms. Beth Jones
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Ms. Caroline Partridge
Accounting Manager

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