

COMPLIANCE AUDIT

Westtown-East Goshen Regional Police Pension Plan Chester County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

September 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Commissioners
Westtown-East Goshen Regional Police Commission
Chester County
West Chester, PA 19382

We have conducted a compliance audit of the Westtown-East Goshen Regional Police Pension Plan for the period January 1, 2017 to December 31, 2020. 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 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 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 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 the plan member who retired and 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 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 or 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, respectively, in accordance with Act 205 and whether selected information provided on this report 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.

Commission officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Westtown-East Goshen Regional Police 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.

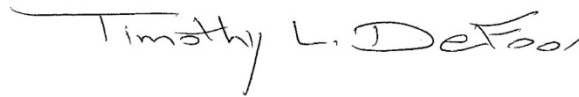
The results of our procedures indicated that, in all significant respects, the Westtown-East Goshen Regional Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following finding further discussed later in this report:

Finding – Noncompliance With Prior Audit Recommendation – Pension Benefit
Provision Not In Compliance With Act 600

The finding contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by commission officials. We are concerned by the commission's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendation 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 Westtown-East Goshen Regional Police Commission and, where appropriate, their responses have been included in the report. We would like to thank commission officials for the cooperation extended to us during the conduct of the audit.



September 22, 2021

Timothy L. DeFoor
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Pension Benefit Provision Not In Compliance With Act 600.....	3
Supplementary Information	5
Report Distribution List	9

BACKGROUND

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The Act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans.

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

The Westtown-East Goshen Regional Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2013-03, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the commission and its police officers. The plan was established January 1, 1983. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2020, the plan had 28 active members, 4 terminated members eligible for vested benefits in the future, and 20 retirees receiving pension benefits.

WESTTOWN-EAST GOSHEN REGIONAL POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Westtown-East Goshen Regional Police Commission has not complied with the prior recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Pension Benefit Provision Not In Compliance With Act 600

WESTTOWN-EAST GOSHEN REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Pension Benefit Provision
Not In Compliance With Act 600**

Condition: As disclosed in the 2 most recent audit reports, the commission amended the pension plan by adopting Resolution No. 2013-03, which contains a service-related disability provision that does not comply with Act 600, as illustrated below:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Act 600 (as amended)</u>
Service-related disability	<p>If hired prior to 10/10/12, 50% of average 36 month compensation calculated at the time the disability commenced.</p> <p>If hired on or after 10/10/12, 50% of base salary.</p>	<p>In the case of the payment of pensions for permanent injuries incurred in service, the amount and commencement of the payments shall be fixed by regulations of the governing body of the borough, town, township or regional police department and shall be calculated at a rate no less than fifty per centum of the member’s salary at the time the disability was incurred, provided that any member who receives benefits for the same injuries under the Social Security Act (49 Stat. 620, 42 U.S.C. § 301 et. seq.) <u>shall have his disability benefits offset or reduced by the amount of such benefits.</u> All such pensions as shall be allowed to those who are retired by reason of disabilities shall be in conformity with a uniform scale. (Emphasis added.)</p>

Criteria: The pension plan’s governing document should contain a service-related disability benefit provision (*i.e. an offset for any member who receives benefits for the same injury under the Social Security Act*) in accordance with Act 600.

Cause: The amended service-related disability benefit provision was awarded pursuant to an arbitration award and the commission was unable to successfully negotiate the service-related disability benefit during the audit period. The current contract will expire on December 31, 2022.

Effect: Maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

WESTTOWN-EAST GOSHEN REGIONAL POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Recommendation: We again recommend that commission officials, after consulting with their solicitor, take whatever action is necessary to bring the plan’s service-related disability benefit provision into compliance with Act 600, as amended, at their earliest opportunity to do so.

Management’s Response: Plan officials provided the following response:

In response to the 2021 Pension Audit Finding that the Pension Plan’s governing document does not contain a service-related disability benefit provision that provides for a social security offset as required under Act 600, the pension plan responds that the current language of the Collective Bargaining Agreement (CBA) provides specifically that the service-related disability benefit is not subject to offset. The current CBA is a result of an arbitration award and not the result of a negotiated agreement. The award failed to address this issue which had been raised in a previous finding. The Commission will continue to attempt to correct this issue in future negotiations.

Auditor’s Conclusion: The department acknowledges the commission’s attempt to rectify this issue and encourages compliance with the prior audit recommendation at the earliest opportunity to do so.

WESTTOWN-EAST GOSHEN REGIONAL 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, 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	\$ 10,165,770	\$ 15,201,039	\$ 5,035,269	66.9%
01-01-17	12,397,701	17,293,250	4,895,549	71.7%
01-01-19	15,908,464	18,266,184	2,357,720	87.1%

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 subject to a ceiling of 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.

WESTTOWN-EAST GOSHEN REGIONAL 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.

WESTTOWN-EAST GOSHEN REGIONAL POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 883,084	\$ 883,084	\$ -	\$ 2,599,736	33.97%
2015	855,896	855,896	-	2,280,620	37.53%
2016	876,592	1,066,592	(190,000)	2,278,638	46.81%
2017	909,301	1,040,612	(131,311)	2,675,600	38.89%
2018	1,063,315	2,323,999	(1,260,684)	2,339,466	99.34%
2019	1,092,461	1,523,451	(430,990)	2,633,564	57.85%
2020	1,114,901	1,226,391	(111,490)	2,860,000	42.88%

WESTTOWN-EAST GOSHEN REGIONAL 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, 2019
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	6 years
Asset valuation method	Smoothing method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

WESTTOWN-EAST GOSHEN REGIONAL POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. John Hertzog
Chairman, Board of Commissioners

Mr. Richard Pomerantz
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Mr. Derek Davis
East Goshen Township Manager

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Lt. Jonathan C. Stafford
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Ms. Kathleen J. Brill
Business Manager

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