

LIMITED PROCEDURES ENGAGEMENT

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

January 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Wallace Township
Chester County
Glenmoore, PA 19343

We conducted a Limited Procedures Engagement (LPE) of the Wallace Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2018 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- Whether municipal officials took appropriate corrective action to address the findings contained in our prior LPE Report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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 engagement period.
- 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.

- Whether retirement benefits calculated for plan members who retired during the engagement 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 pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Wallace Township Non-Uniformed Pension Plan was not being 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 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

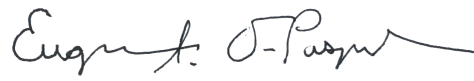
The finding contained in this LPE report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation noted in this report.

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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 Wallace Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

January 22, 2020


EUGENE A. DEPASQUALE
Auditor General

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WALLACE TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior LPE Report Recommendation

Wallace Township has complied with the prior LPE report recommendation concerning the following:

- Failure To Pay The Minimum Municipal Obligation Of The Plan

The municipality deposited the outstanding MMO due to the pension plan for the year 2015, and include appropriate interest.

Noncompliance With Prior LPE Report Recommendation

Wallace Township has not complied with the prior LPE report recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

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

WALLACE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: As disclosed in the prior report, the township failed to follow the instructions accompanying Certification Form AG 385 in accurately reporting the required data. A similar condition occurred during the current period. The township failed to certify an eligible non-uniformed employee (1 unit) and understated payroll by \$37,381 on the Certification Form AG 385 filed in 2017. The data contained on this form is based on prior calendar year information.

Criteria: As previously disclosed, 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: Plan officials again failed to implement adequate internal control procedures to ensure the accuracy of the data certified during 2017.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plan. The township's original state aid allocation for 2017 was based on unit value (\$4,588 per unit). However, based on the corrected information, the township was entitled to an allocation based on the plan's pension costs in the amount of \$7,541, resulting in an underpayment of state aid to the township in the amount of \$2,953 during 2017.

Although the township will be reimbursed for the state aid underpayment due to the certification error, the full amount of the 2017 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

Recommendation: Since the township satisfied its 2017 minimum municipal obligation (MMO) by depositing its original state aid allocation received of \$4,588 into the pension plan on November 27, 2017, and depositing the remaining outstanding MMO balance due for 2017 in the amount of \$3,023 on December 31, 2017, from the township's general fund, we recommend that upon receipt of the additional 2017 state aid, plan officials reimburse the township's general fund for the municipal contributions previously expended to meet the plan's 2017 obligation.

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.

WALLACE TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

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

Auditor's Conclusion: Compliance with the recommendation will be subject to verification in our next plan engagement.

WALLACE TOWNSHIP NON-UNIFORMED 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, AND 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Total Pension Liability				
Service cost	\$ 9,055	\$ 5,851	\$ 6,502	\$ 14,286
Interest	18,562	21,180	22,443	21,203
Difference between expected and actual experience	71,677	(48,337)	(47,578)	-
Changes of assumptions	-	(3,375)	10,956	-
Benefit payments, including refunds of member contributions	(322)	-	(2,707)	(5,923)
Net Change in Total Pension Liability	<u>98,972</u>	<u>(24,681)</u>	<u>(10,384)</u>	<u>29,566</u>
Total Pension Liability - Beginning	<u>328,602</u>	<u>427,574</u>	<u>402,893</u>	<u>392,509</u>
Total Pension Liability - Ending (a)	<u>\$ 427,574</u>	<u>\$ 402,893</u>	<u>\$ 392,509</u>	<u>\$ 422,075</u>
Plan Fiduciary Net Position				
Contributions - employer	\$ 954	\$ 1,715	\$ 11,214	\$ 15,185
Contributions - PMRS assessment	-	-	20	40
PMRS investment income	22,549	23,808	25,497	25,591
Market value investment income	(1,304)	(25,908)	7,659	56,583
Benefit payments, including refunds of member contributions	(322)	-	(2,707)	(5,923)
PMRS administrative expense	(120)	(120)	(120)	(140)
Additional administrative expense	(865)	(992)	(1,249)	(1,177)
Net Change in Plan Fiduciary Net Position	<u>20,892</u>	<u>(1,497)</u>	<u>40,314</u>	<u>90,159</u>
Plan Fiduciary Net Position - Beginning	<u>406,056</u>	<u>426,948</u>	<u>425,451</u>	<u>465,765</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 426,948</u>	<u>\$ 425,451</u>	<u>\$ 465,765</u>	<u>\$ 555,924</u>
Net Pension Liability - Ending (a-b)	<u>\$ 626</u>	<u>\$ (22,558)</u>	<u>\$ (73,256)</u>	<u>\$ (133,849)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	99.85%	105.60%	118.66%	131.71%
Estimated Covered Employee Payroll	\$ 123,290	\$ 80,259	\$ 93,261	\$ 165,491
Net Pension Liability as a Percentage of Covered Employee Payroll	0.51%	(28.11%)	(78.55%)	(80.88%)

WALLACE 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 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)</u>	<u>Current Discount Rate (5.50%)</u>	<u>1% Increase (6.50%)</u>
Net Pension Liability - 12/31/14	\$ 60,335	\$ 626	\$ (49,330)
Net Pension Liability - 12/31/15	\$ 30,897	\$ (22,558)	\$ (67,316)

In addition, the following presents the net pension liability of the township as of December 31, 2016 and 2017, calculated using the discount rate of 5.25%, 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 (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ (23,547)	\$ (73,256)	\$ (114,093)
Net Pension Liability - 12/31/17	\$ (80,396)	\$ (133,849)	\$ (177,762)

WALLACE 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	\$ -	\$ 954	\$ (954)	\$ 123,290	0.77%
2015	1,715	1,715	-	80,259	2.14%
2016	790	11,234	(10,444)	93,261	12.05%
2017	7,571	15,225	(7,654)	165,491	9.20%
2018	12,455	12,455	-		

* Due to the timing of this engagement, covered-employee payroll for 2018 was not provided in this schedule.

WALLACE 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	\$ 388,986	\$ 302,781	\$ (86,205)	128.5%
01-01-15	432,892	427,574	(5,318)	101.2%
01-01-17	493,432	392,509	(100,923)	125.7%

WALLACE 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.

WALLACE 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	N/A
Remaining amortization period	N/A
Asset valuation method	The Actuarial Value of Assets equals the plan’s member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing 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, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

WALLACE 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

Mr. William Moore
Chairman, Board of Township Supervisors

Ms. Elizabeth Randzin
Township Manager

Ms. Charity Rosenberry, CPA
Pennsylvania Municipal Retirement System

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