



**WEST CALN POLICE PENSION PLAN
CHESTER COUNTY
COMPLIANCE AUDIT REPORT
FOR THE PERIOD
JANUARY 1, 2010, TO DECEMBER 31, 2011**

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COMMONWEALTH OF PENNSYLVANIA
EUGENE A. DEPASQUALE - AUDITOR GENERAL
DEPARTMENT OF THE AUDITOR GENERAL





WEST CALN TOWNSHIP POLICE PENSION PLAN

CHESTER COUNTY

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ABBREVIATION

PMRS - Pennsylvania Municipal Retirement System

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.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign 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 Caln Township Police Pension Plan is also governed by implementing regulations adopted by the 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 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The West Caln Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2-10, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers.





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**EUGENE A. DePASQUALE
AUDITOR GENERAL**

Board of Township Supervisors
West Caln Township
Chester County
Wagontown, PA 19376

We have conducted a compliance audit of the West Caln Township Police Pension Plan for the period January 1, 2010, to December 31, 2011. 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.

- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether the terms of the contractual agreement with the Pennsylvania Municipal Retirement System are in accordance with the plan's governing document, if separately stated, and applicable laws and regulations.

The West Caln Township Police Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Caln 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 objective, and assessed whether those significant controls were properly designed and implemented. Additionally, 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 tests indicated that, in all significant respects, the West Caln Township 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 findings further discussed later in this report:

- Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment Of State Aid
- Finding No. 2 – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it. However, we are concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 66.5% as of January 1, 2011, which is the most recent date available. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of West Caln Township and, where appropriate, their responses have been included in the report.

December 10, 2012


EUGENE A. DEPASQUALE
Auditor General



WEST CALN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In A Net Underpayment
Of State Aid

Condition: The township certified 2 ineligible police officers (4 units) and overstated payroll by \$135,366 and certified 2 ineligible nonuniformed employees (2 units) and overstated payroll by \$53,305 on the Certification Form AG 385 filed in 2009. In addition, the township certified 2 ineligible police officers (4 units) and overstated payroll by \$147,478 and certified 1 ineligible nonuniformed employee (1 unit) and overstated nonuniformed payroll by \$9,734 on the Certification Form AG 385 filed in 2010. The township also failed to certify 2 eligible police officers (4 units) and understated payroll by \$165,709 on the Certification Form AG 385 filed in 2011. Furthermore, the township certified 1 ineligible nonuniformed employee (1 unit) and overstated payroll by \$13,556 on the Certification Form AG 385 filed in 2012. The data contained on these certification forms is based on prior calendar year information.

Criteria: Section 402(d) of Act 205 states that pension plans established subsequent to December 18, 1984, must be maintained for at least three plan years before becoming eligible for state aid. Further, Section 102 of Act 205 defines plan year as “a calendar year commencing on January 1 and ending on December 31.”

In addition, pursuant to Act 205, at Section 402(e)(2), in order to be eligible for certification, an employee must have been employed on a full-time basis for at least six consecutive months and must have been participating in a pension plan during the certification year.

Cause: The police pension plan was not established until November 1, 2007; therefore, the township was not eligible to receive state aid for the police pension plan until 2011.

In addition, plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

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 plans.

WEST CALN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

The effect on the township’s state aid allocations is noted below:

<u>Year</u>	<u>State Aid Allocation</u>	<u>State Aid Entitlement</u>	<u>State Aid Overpayment (Underpayment)</u>
2009	\$ 26,701	\$ 21,896	\$ 4,805
2010	42,053	24,333	17,720
2011	24,247	60,474	(36,227)
2012	42,913	39,337	<u>3,576</u>
Net Underpayment of State Aid			<u>\$ (10,126)</u>

Although the township will be reimbursed for the net underpayment of state aid due to the township’s certification errors, the full amount of the state aid allocation due was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that plan officials establish adequate internal control procedures 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.

Finding No. 2 - Failure To Properly Determine And Fully Pay The Minimum Municipal
Obligation Of The Plan

Condition: Plan officials did not properly determine the minimum municipal obligation (MMO) of the police pension plan for the years 2011 and 2012, as required by Act 205. In addition, the township did not fully pay the MMO due for the year 2011. The MMO determined by the municipality understated payroll by \$29,709 for the year 2011 and \$21,027 for the year 2012. Based upon an estimate prepared by this department, the municipality had an unpaid MMO balance of \$6,194 for the year 2011 and based on the current calculation, will underpay the 2012 MMO by \$4,384.

WEST CALN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

With regard to the payroll estimate used in the preparation of the MMO, the Pennsylvania Code, Title 16, Section 204.1(c)(1) states, in part:

The payroll used in determining the minimum municipal obligation of a pension plan under section 302(c) of the act shall be based on the payroll to be reported on the Internal Revenue Service Form W-2 and shall be calculated as the total payroll for active members of the plan as of the date of the determination, plus the payroll for the same active members of the plan projected to the year's end using the payroll rates in effect as of the date of the determination.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the 2011 and 2012 MMOs were properly determined and the 2011 MMO was fully paid in accordance with Act 205 requirements.

WEST CALN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Effect: The proper determination of the plan’s MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality’s failure to fully pay the 2011 MMO by the December 31, 2011, deadline, the municipality must add the unpaid MMO balance to the current year’s MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality revise the 2011 and 2012 MMO determinations and fully pay the MMOs due for the years 2011 and 2012 in accordance with Act 205 requirements.

Furthermore, we recommend that plan officials establish adequate internal control procedures to ensure that future MMOs are properly determined and fully paid in accordance with Act 205 requirements.

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

WEST CALN 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, 2009, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
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)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-09	\$ 13,205	\$ 32,663	\$ 19,458	40.4%	\$ 164,299	11.8%
01-01-11	76,086	114,491	38,405	66.5%	178,713	21.5%

Generally accepted accounting principles require the above data to be presented as of the plan's actuarial valuation dates for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

WEST CALN 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

WEST CALN TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 1,865	100.0%
2008	11,207	100.0%
2009	26,095	100.0%
2010	32,596	100.0%
2011	36,235	82.9%

Generally accepted accounting principles require the above data to be presented for the past six consecutive fiscal years. Since six years of data were not yet available, this requirement will be implemented prospectively.

WEST CALN TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 NOTES TO SUPPLEMENTARY SCHEDULES
 (UNAUDITED)

The information presented in the required 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, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	17 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%, net of expenses
Projected salary increases *	Age-related scale for merit/ seniority (e.g. age 30 - 6.4%; age 40 - 5.0%; age 50 - 4.1%; age 60 - 3.7%)
* Includes inflation at	3.0%
Cost-of-living adjustments	3.0%, where applicable

WEST CALN TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

West Caln Township Police Pension Plan
Chester County
P.O. Box 175
Wagontown, PA 19376

Mr. Paul Pfitzenmyer	Chairman, Board of Township Supervisors
Mr. Gary Dunlap	Township Manager
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.