

COMPLIANCE AUDIT

Aston Township Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

June 2019



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 Commissioners
Aston Township
Delaware County
Aston, PA 19014

We have conducted a compliance audit of the Aston 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 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 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 both 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation report 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.

Aston Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016 and 2017, 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 Aston 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 Aston 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 finding further discussed later in this report:

Finding – Noncompliance With The Prior Audit Recommendation –
Pension Benefits In Excess Of Act 600.

The finding contained in this audit 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 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 Aston 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.

June 11, 2019



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 Aston 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 Aston Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 903, 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 January 1, 1958. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2018, the plan had 20 active members, no terminated members eligible for vested benefits in the future, and 21 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; Members hired on or after January 1, 2012, age 53 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	100% vesting available after 12 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly pay based on last 36 months multiplied by the accrued benefit adjustment, plus \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 per month. Members hired on or after January 1, 2012, 50% of average monthly pay based on 48 months, plus an additional service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$300 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 75% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

ASTON TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Aston Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report.

- Pension Benefits In Excess Of Act 600

ASTON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Noncompliance With The Prior Audit Recommendation – Pension Benefits In Excess Of Act 600

Condition: As disclosed in the prior audit report, it was determined that the collective bargaining agreement between the township and its police officers for the period January 1, 2012 to December 31, 2015, granted benefits that were not authorized by Act 600. During the current period, it was also determined that the collective bargaining agreement between the township and its police officers for the period January 1, 2016 to December 31, 2020, continues to grant benefits that are not authorized by Act 600, as noted below:

<u>Benefit Provision</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600</u>
Normal retirement eligibility requirements.	Officers hired prior to January 1, 2012 shall be eligible for superannuation (“normal”) retirement at age fifty (50) with twenty-five (25) years of service. Officers hired on or after January 1, 2012 shall be eligible for superannuation (“normal”) retirement at age fifty-three (53) with twenty-five (25) years of service. Any policeman who has twenty (20) years of service may, at his option, retire at age fifty-five (55).	A minimum of 25 years of aggregate police service and age 55. If an actuarial study indicates that a reduction of the age requirement is feasible, it may be reduced to age 50.
Nonservice-related disability benefit.	With 10 or more years of service, 70% of average salary; with less than 10 years of service, \$100 annually per year of service.	Not authorized.

It should be noted that the excess normal retirement benefit provision was originally included in the 1973-1974 collective bargaining agreement and the excess nonservice-related disability benefit provision has been included since the 1975 collective bargaining agreement.

ASTON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Criteria: As previously disclosed, the pension plan’s benefit structure should be in compliance with the provisions of Act 600.

Cause: Municipal officials were unable to remove the unauthorized benefit provisions through the collective bargaining process.

Effect: During the current period, a police officer retired pursuant to the excess benefit provisions. Providing unauthorized pension benefits increases the plan’s pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Since the township received state aid based on unit value during the current audit period, it did not receive allocations attributable to the excess pension benefits provided. However, in the future, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We again recommend that the township comply with Act 600 upon the renewal, extension, or renegotiation of the collective bargaining agreement. To the extent that the township is not in compliance with Act 600 and/or is contractually obligated to pay benefits in excess of those authorized by Act 600, the excess benefits must be reflected in the Act 205 actuarial valuation reports for the plan and funded in accordance with Act 205 funding standards. Furthermore, such benefits will be deemed ineligible for funding with state pension aid. In such case, the plan’s actuary may be required to determine the impact, if any, of the excess benefits on the plan’s future state aid allocations and submit this information to the Department.

Management’s Response: Aston Township will continue to try to negotiate the removal of these two disputed benefits; however until such time, these benefits will continue to be recognized within the police pension plan’s Act 205 actuarial valuation report, as the Township has always done in the past.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan and the department will continue to monitor the impact, if any, of the excess benefits on the township’s future state aid allocations.

ASTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on pages 6 through 9 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 393,280	\$ 387,554
Interest	1,299,875	1,363,088
Difference between expected and actual experience	-	(296,848)
Changes of assumptions	-	362,807
Benefit payments, including refunds of member contributions	(963,528)	(962,934)
Net Change in Total Pension Liability	<u>729,627</u>	<u>853,667</u>
Total Pension Liability – Beginning	16,336,921	17,066,548
Total Pension Liability – Ending (a)	<u><u>\$ 17,066,548</u></u>	<u><u>\$ 17,920,215</u></u>
Plan Fiduciary Net Position		
Contributions – Employer	\$ 1,532,394	\$ 1,522,815
Contributions – Member	98,895	104,162
Net investment income	729,790	(126,349)
Benefit payments, including refunds of member contributions	(963,528)	(962,934)
Administrative expense	(5,200)	(9,800)
Net Change in Plan Fiduciary Net Position	<u>1,392,351</u>	<u>527,894</u>
Plan Fiduciary Net Position – Beginning	10,419,581	11,811,932
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 11,811,932</u></u>	<u><u>\$ 12,339,826</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 5,254,616</u></u>	<u><u>\$ 5,580,389</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	69.21%	68.86%
Estimated Covered Employee Payroll	\$ 2,004,342	\$ 1,941,520
Net Pension Liability as a Percentage of Covered Employee Payroll	262.16%	287.42%

ASTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 406,932	\$ 372,851
Interest	1,425,479	1,490,279
Difference between expected and actual experience	-	21,106
Changes of assumptions	-	49,916
Benefit payments, including refunds of member contributions	<u>(1,017,317)</u>	<u>(1,101,389)</u>
Net Change in Total Pension Liability	815,094	832,763
Total Pension Liability – Beginning	<u>17,920,215</u>	<u>18,735,309</u>
Total Pension Liability – Ending (a)	<u>\$18,735,309</u>	<u>\$19,568,072</u>
Plan Fiduciary Net Position		
Contributions – Employer *	\$ 1,481,772	\$ 1,483,858
Contributions – Member	104,217	111,229
Net investment income	813,353	1,745,432
Benefit payments, including refunds of member contributions	<u>(1,017,317)</u>	<u>(1,101,389)</u>
Administrative expense	<u>(6,600)</u>	<u>(10,750)</u>
Net Change in Plan Fiduciary Net Position	1,375,425	2,228,380
Plan Fiduciary Net Position – Beginning	<u>12,339,826</u>	<u>13,715,251</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$13,715,251</u>	<u>\$15,943,631</u>
Net Pension Liability – Ending (a-b)	<u>\$ 5,020,058</u>	<u>\$ 3,624,441</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.21%	81.48%
Estimated Covered Employee Payroll	\$ 2,082,628	\$ 2,087,194
Net Pension Liability as a Percentage of Covered Employee Payroll	241.04%	173.65%

* 2017 Employer Contributions includes \$1,420 miscellaneous income.

ASTON 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, 2015, 2016, and 2017, calculated using the discount rate of 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/14	\$ 7,114,272	\$ 5,254,616	\$ 3,672,248
Net Pension Liability – 12/31/15	\$ 4,039,997	\$ 5,580,389	\$ 1,191,056
Net Pension Liability – 12/31/16	\$ 7,080,339	\$ 5,020,058	\$ 3,405,982
Net Pension Liability – 12/31/17	\$ 5,724,874	\$ 3,624,441	\$ 1,908,845

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	\$ 1,532,394	\$ 1,532,394	\$ -	\$2,004,342	76.45%
2015	1,522,815	1,522,815	-	1,941,520	78.43%
2016	1,481,772	1,481,772	-	2,082,628	71.15%
2017	1,482,438	1,482,438	-	2,087,194	71.03%
2018	1,137,703	1,137,703	-	2,327,622	48.88%

ASTON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.73%)
2017	13.05%
2016	7.29%
2015	(1.13%)
2014	7.25%

ASTON 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	\$ 8,696,150	\$ 16,084,135	\$ 7,387,985	54.1%
01-01-15	11,811,932	17,132,507	5,320,575	68.9%
01-01-17	13,641,908	18,806,331	5,164,423	72.5%

ASTON 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.

ASTON 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	8 years
Asset valuation method	Market value.
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0%

ASTON TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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