

LIMITED PROCEDURES ENGAGEMENT

Caernarvon Township Police Pension Plan

Berks County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2019

April 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
Caernarvon Township
Berks County
Morgantown, PA 19543

We conducted a Limited Procedures Engagement (LPE) of the Caernarvon Township Police Pension Plan for the period January 1, 2016 to December 31, 2019 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 finding 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 annual employee contributions were required during the engagement period and, if so, 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 engagement period and examining documents evidencing the deposit of these employee contributions into the pension plan.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Caernarvon Township Police 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 – Partial Compliance With Prior Recommendation - Incorrect Data
On Certification Form AG 385 Resulting In Overpayment Of
State Aid

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 Caernarvon 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.

April 7, 2020


 EUGENE A. DEPASQUALE
 Auditor General

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CAERNARVON TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

Caernarvon Township has partially complied with the prior recommendation concerning the following:

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

During the current engagement period, the township reimbursed \$9,073 to the Commonwealth for the overpayment of state aid in 2016; however, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data in the year 2019 as further discussed in the Finding and Recommendation section of this report.

CAERNARVON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Partial Compliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by reimbursing \$9,073 to the Commonwealth for the overpayment of state aid received in 2016. However, plan officials again failed to comply with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data. The township certified one ineligible police officer (2 units) and overstated payroll by \$1,844 on the Certification Form AG 385 filed in 2019. The data contained on this certification form is based on prior calendar year information.

Criteria: 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 officer in question terminated employment at the end of December 2017 and received his last pay in 2018, and plan officials certified the officer and his 2018 wages without realizing that the officer did not meet the eligibility criteria in 2018 to be certified on the Certification Form AG 385 filed in 2019.

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. Because the township’s state aid allocation was based on unit value, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2019	2	\$5,120	\$ 10,240

Furthermore, the township’s future state aid allocations may be withheld until the finding recommendation is complied with.

Recommendation: We recommend that the total excess state aid, in the amount of \$10,240, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

CAERNARVON TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Furthermore, we again 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.

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

Auditor's Conclusion: Due to the potential withhold of state aid, the township's compliance with the finding recommendation will be monitored subsequent to the release of the report and through our next plan engagement.

CAERNARVON TOWNSHIP POLICE PENSION PLAN
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this report cites an overpayment of state aid to the township in the amount of \$10,240, plus interest. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120.

CAERNARVON TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 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, 2015, 2016, 2017, 2018, AND 2019

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Total Pension Liability					
Service cost	\$ 77,502	\$ 81,377	\$ 77,894	\$ 81,789	\$ 106,848
Interest	151,711	159,892	153,995	162,345	184,016
Difference between expected and actual experience	-	-	(272,168)	-	71,991
Changes of assumptions	-	-	65,099	-	67,452
Benefit payments, including refunds of member contributions	(134,904)	(97,520)	(132,388)	(100,608)	(97,520)
Net Change in Total Pension Liability	<u>94,309</u>	<u>143,749</u>	<u>(107,568)</u>	<u>143,526</u>	<u>332,787</u>
Total Pension Liability - Beginning	2,157,246	2,251,555	2,395,304	2,287,736	2,431,262
Total Pension Liability - Ending (a)	<u>\$ 2,251,555</u>	<u>\$ 2,395,304</u>	<u>\$ 2,287,736</u>	<u>\$ 2,431,262</u>	<u>\$ 2,764,049</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 112,299	\$ 71,500	\$ 65,473	\$ 70,000	\$ 81,928
Contributions - member	20,776	29,485	23,502	30,503	31,180
Net investment income	(33,086)	117,947	340,378	(217,897)	525,302
Benefit payments, including refunds of member contributions	(134,904)	(97,520)	(132,388)	(100,608)	(97,520)
Net Change in Plan Fiduciary Net Position	<u>(34,915)</u>	<u>121,412</u>	<u>296,965</u>	<u>(218,002)</u>	<u>540,890</u>
Plan Fiduciary Net Position - Beginning	2,328,679	2,293,764	2,415,176	2,712,141	2,494,139
Plan Fiduciary Net Position - Ending (b)	<u>\$ 2,293,764</u>	<u>\$ 2,415,176</u>	<u>\$ 2,712,141</u>	<u>\$ 2,494,139</u>	<u>\$ 3,035,029</u>
Net Pension Liability - Ending (a-b)	<u>\$ (42,209)</u>	<u>\$ (19,872)</u>	<u>\$ (424,405)</u>	<u>\$ (62,877)</u>	<u>\$ (270,980)</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	101.9%	100.8%	118.6%	102.6%	109.8%
Estimated Covered Employee Payroll *	\$ 450,308		\$ 538,177	\$ 588,039	
Net Pension Liability as a Percentage of Covered Employee Payroll	(9.4%)		(78.9%)	(10.7%)	

* Covered Employee Payroll for 2016 and 2019 was not presented.

CAERNARVON 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, 2015, 2016, 2017, 2018, and 2019, calculated using the discount rate of 7.00%, 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 (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability - 12/31/15	\$ 273,987	\$ (42,209)	\$ (305,077)
Net Pension Liability - 12/31/16	\$ 314,292	\$ (19,872)	\$ (298,268)
Net Pension Liability - 12/31/17	\$ (124,009)	\$ (424,405)	\$ (674,180)
Net Pension Liability - 12/31/18	\$ 210,297	\$ (62,877)	\$ (327,167)
Net Pension Liability - 12/31/19	\$ 110,972	\$ (270,980)	\$ (588,846)

CAERNARVON 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
2010	\$ 84,885	\$ 84,885	\$ -		
2011	114,624	114,624	-		
2012	102,352	102,352	-		
2013	103,156	103,156	-		
2014	101,085	101,085	-		
2015	112,299	112,299	-	\$ 450,308	24.94%
2016	71,497	71,500	(3)		
2017	65,473	65,473	-	538,177	12.17%
2018	69,482	70,000	(518)	588,039	11.90%
2019	79,906	81,928	(2,022)		

* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2015, and the year 2016 was omitted. In addition, due to the timing of this engagement, covered-employee payroll for 2019 was not provided in this schedule.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(7.2%)
2017	15.4%
2016	6.2%
2015	(0.5%)
2014	7.5%
2013	17.5%
2012	10.5%
2011	3.9%

CAERNARVON 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	\$ 1,764,652	\$ 1,892,913	\$ 128,261	93.2%
01-01-15	2,328,679	2,157,246	(171,433)	107.9%
01-01-17	2,415,176	2,188,235	(226,941)	110.4%

CAERNARVON 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.

CAERNARVON 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	Not applicable
Remaining amortization period	None
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return *	7.0%
Projected salary increases *	5.0%
Cost-of-living adjustments	None assumed

* Includes inflation at 3.0%

CAERNARVON 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. Allen Styer, III
Chairman, Board of Township Supervisors

Mr. Paul Whiteman, Jr.
Vice Chairman, Board of Township Supervisors

Mr. John Greisemer
Chief Administrative Officer

Ms. Joan A. Bair
Township Secretary

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