

# LIMITED PROCEDURES ENGAGEMENT

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## London Grove Township Cash Balance Pension Plan Chester County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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November 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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AUDITOR GENERAL

Board of Township Supervisors  
London Grove Township  
Chester County  
West Grove, PA 19390

We conducted a Limited Procedures Engagement (LPE) of the London Grove Township Cash Balance Pension Plan for the period January 1, 2015 to December 31, 2017 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 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2015 to December 31, 2017, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the London Grove Township Cash Balance 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 findings further discussed later in this report:

Finding No. 1 – Failure To Properly Fund Members’ Accounts

Finding No. 2 – Failure To Deduct Member Contributions

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 London Grove 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.

October 24, 2018



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Findings and Recommendations:	
Finding No. 1 – Failure To Properly Fund Members’ Accounts .....	1
Finding No. 2 – Failure To Deduct Member Contributions.....	2
Supplementary Information .....	3
Summary of Deposited State Aid and Employer Contributions.....	5
Report Distribution List .....	6

LONDON GROVE TOWNSHIP CASH BALANCE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Properly Fund Members’ Accounts**

Condition: The township did not fully fund the account of 1 member in 2017, and paid excess municipal contributions to the accounts of 3 members in 2016, and 4 members in 2017, as illustrated below:

2016:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
10/17/16	50	41	\$ 9
10/17/16	50	41	9
11/16/16	\$ 50	\$ 25	25
Total			<u><u>\$ 43</u></u>

2017:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
10/17/16	\$ 100	\$ 49	\$ 51
01/17/17	200	191	9
06/19/17	100	106	(6)
08/21/17	100	72	28
09/05/17	100	64	36
Total			<u><u>\$ 118</u></u>

Criteria: The plan’s governing document at Section 9.1 (b), states:

For members hired on or after January 1, 2014, the Municipality shall contribute fifty dollars (\$50) to each Member’s Account per quarter in accordance with the Board’s policy regarding the treatment of member contributions. For Members who do not earn Credited Service for the full quarter, the Municipality shall contribute an amount equal to a proportion of the Member’s actual Credited Service earned during the quarter.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the plan members’ accounts were properly funded. Plan officials did not contribute an amount equal to a proportion of the members’ actual credited service earned during partial quarters.

LONDON GROVE TOWNSHIP CASH BALANCE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Effect: The failure to properly allocate contributions to the members' accounts has resulted in certain plan members receiving benefits in excess of those to which they are entitled and one plan member being denied benefits to which they are entitled in accordance with the plan's governing document.

Recommendation: We recommend that the township review the applicable members' accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan's governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members' accounts are properly funded in accordance with the provisions contained in the plan's governing document.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

**Finding No. 2 – Failure To Deduct Member Contributions**

Condition: Municipal officials failed to deduct \$230 of member contributions from one plan member during 2016.

Criteria: The plan's governing document at Section 9.2 (b), states:

Members hired on or after January 1, 2014 shall contribute three percent (3%) of their compensation.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that an account was set up for the member and the member's contributions were deducted from her compensation.

Effect: Insufficient member contributions could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Recommendation: We recommend that the delinquent member contributions be deposited into the pension plan.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement of the plan.

LONDON GROVE TOWNSHIP CASH BALANCE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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 AND 2016

	<u>2015</u>	<u>2016</u>
Total Pension Liability		
Service cost	\$ 1,765	\$ 3,182
Interest	21	259
Transfers	-	9,860
Net Change in Total Pension Liability	<u>1,786</u>	<u>13,301</u>
Total Pension Liability - Beginning	-	1,786
Total Pension Liability - Ending (a)	<u><u>\$ 1,786</u></u>	<u><u>\$ 15,087</u></u>
 Plan Fiduciary Net Position		
Contributions - employer	\$ 150	\$ 353
Contributions - PMRS assessment	20	60
Contributions - member	1,615	2,882
PMRS income	20	269
Market value investment income	(128)	(674)
Transfers	-	9,860
PMRS Administrative expense	(20)	-
Additional administrative expense	(1)	(13)
Net Change in Plan Fiduciary Net Position	<u>1,656</u>	<u>12,737</u>
Plan Fiduciary Net Position - Beginning	-	1,656
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,656</u></u>	<u><u>\$ 14,393</u></u>
 Net Pension Liability - Ending (a-b)	<u><u>\$ 130</u></u>	<u><u>\$ 694</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	92.72%	95.40%
 Estimated Covered Employee Payroll	\$ 53,829	\$ 137,691
 Net Pension Liability as a Percentage of Covered Employee Payroll	0.24%	0.50%

LONDON GROVE TOWNSHIP CASH BALANCE 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, 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:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/15	\$ 487	\$ 130	\$ (227)

The following presents the net pension liability of the township as of December 31, 2016, 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:

	1% Decrease (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 3,711	\$ 694	\$ (2,324)



LONDON GROVE TOWNSHIP CASH BALANCE PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 150
2016	None	350
2017	None	1,200

LONDON GROVE TOWNSHIP CASH BALANCE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Richard Scott-Harper**  
Chairman, Board of Township Supervisors

**Mr. Kenneth Battin**  
Township Manager

**Ms. Jacqui Guenther**  
Finance/Human Resource Director

**Ms. Charity Rosenberry, CPA**  
Pennsylvania Municipal Retirement System

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