

# COMPLIANCE AUDIT

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## West Earl Township Police Pension Plan Lancaster County, Pennsylvania For the Period January 1, 2016 to December 31, 2019

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September 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  
West Earl Township  
Lancaster County  
Brownstown, PA 17508

We have conducted a compliance audit of the West Earl Township Police Pension Plan for the period January 1, 2016 to December 31, 2019. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding 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. 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 plan members who retired and elected to vest during the current audit period, and through the completion of our fieldwork procedures, 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 or payable to the recipients.
- We determined whether the January 1, 2017 and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018 and 2020, 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 the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the West Earl Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 procedures indicated that, in all significant respects, the West Earl 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 – Incorrect Pension Benefit Calculation

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 West Earl 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.

August 27, 2020



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.

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 West Earl Township Police Pension Plan is also governed by implementing regulations 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The West Earl Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 63, as amended, and a separately executed plan agreement with the plan's custodian, 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 2, 1973. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions were eliminated for the years 2016, 2017, and 2018. As of December 31, 2019, the plan had 4 active members, 1 terminated member eligible for vested benefits in the future, and 4 retirees receiving pension benefits from the plan.

WEST EARL TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Incorrect Pension Benefit Calculation**

Condition: A member of the pension plan who retired on June 1, 2019, had his pension benefit incorrectly determined because municipal officials failed to accurately calculate the member's final monthly average salary in accordance with the plan's governing document.

Criteria: The separately executed plan agreement, at Section 4.01, states, in part:

An Active Participant's monthly Accrued Benefit as of any date will be equal to the product of (a) and (b) below:

- (a) An amount equal to 50% of his Average Compensation.
- (b) His Accrued Benefit Adjustment.

Also, the separately executed plan agreement, at Section 1.02, states, in part:

Average Compensation means, on any given date, the average of an Employee's monthly Compensation for the latest 36 months of employment with the Employer.

Cause: Municipal officials failed to include 6 weekly paychecks at the beginning of the retiree's last 36 months of employment. Municipal officials also failed to establish adequate internal control procedures to ensure the pension benefit was properly determined in accordance with the plan's governing document.

Effect: The plan is paying pension benefits to a retiree less than those authorized by the plan's governing document.

Recommendation: We recommend that municipal officials adjust the retiree's pension benefit 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 audit of the plan.

WEST EARL 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, 2015, is as follows:

|                                | (1)                                    | (2)  | (3)  | (4)                        |
|--------------------------------|--|--|--|----------------------------|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) |
| 01-01-15                       | \$ 1,497,254                           | \$ 1,701,785   | \$ 204,531   | 88.0%                      |
| 01-01-17                       | 1,764,612                              | 2,138,987  | 374,375  | 82.5%                      |
| 01-01-19                       | 2,064,173                              | 2,418,217  | 354,044  | 85.4%                      |

Note: The market values of the plan’s assets at 01-01-15, 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a five-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of the fair market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.



WEST EARL 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.

WEST EARL TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

| <u>Year Ended<br/>December 31</u> | <u>Actuarially<br/>Determined<br/>Contribution</u> | <u>Actual<br/>Contributions</u> | <u>Contribution<br/>Deficiency<br/>(Excess)</u> | <u>Covered-<br/>Employee<br/>Payroll</u> | <u>Contributions as<br/>a Percentage of<br/>Covered-<br/>Employee<br/>Payroll</u> |
|-----------------------------------|--|---------------------------------|---|--|---|
| 2010                              | \$ 79,551  | \$ 80,163                       | \$ (612)  | \$ 427,500                               | 18.8%   |
| 2011                              | 78,696   | 78,696                          | -   | 421,145                                  | 18.7%   |
| 2012                              | 75,933   | 75,933                          | -   | 445,692                                  | 17.0%   |
| 2013                              | 74,083   | 74,083                          | -   | 431,906                                  | 17.2%   |
| 2014                              | 85,400   | 85,400                          | -   | 444,864                                  | 19.2%   |
| 2015                              | 84,778   | 84,778                          | -   | 440,270                                  | 19.3%   |
| 2016                              | 94,044   | 94,044                          | -   | 438,368                                  | 21.5%   |
| 2017                              | 92,569   | 92,569                          | -   | 427,678                                  | 21.6%   |
| 2018                              | 129,776  | 129,776                         | -   | 461,072                                  | 28.1%   |
| 2019                              | 130,223  | 130,223                         | -   | 464,149                                  | 28.1%   |

WEST EARL 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, 2019   |
| Actuarial cost method         | Entry age normal  |
| Amortization method           | Level dollar  |
| Remaining amortization period | 7 years   |
| Asset valuation method        | 5-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets. |
| Actuarial assumptions:        |   |
| Investment rate of return     | 7.5%  |
| Projected salary increases    | 5.0%  |
| Cost-of-living adjustments    | None assumed  |

WEST EARL 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. John Ford**  
Chairman, Board of Township Supervisors

**Mr. Dave Thornton**  
Vice-Chairman, Board of Township Supervisors

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Township Supervisor

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Township Supervisor

**Ms. Jenna Seesholtz**  
Township Manager

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