

LIMITED PROCEDURES ENGAGEMENT

West Grove Borough Police Pension Plan Chester County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

October 2018



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
West Grove Borough
Chester County
West Chester, PA 19390

We conducted a Limited Procedures Engagement (LPE) of the West Grove Borough Police Pension Plan for the period January 1, 2014 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.
- 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 retirement benefits calculated for plan members who retired during the engagement 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 benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- Whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 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 West Grove Borough 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment 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 borough 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 West Grove Borough and, where appropriate, their responses have been included in this report.

October 12, 2018



EUGENE A. DEPASQUALE
Auditor General

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WEST GROVE BOROUGH POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify 3 eligible police officers (6 units) and understated payroll by \$222,029 on the Certification Form AG 385 filed in 2017. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: The borough did not believe the police officers were eligible for certification on the borough’s Certification Form AG 385 filed in 2017 because the borough entered into a regional police department effective January 1, 2017 and the police officers transferred to the regional police pension plan. However, the officers were still borough employees and members of the borough police pension plan in 2016 and were eligible to be 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. Because the borough’s state aid allocation was based on unit value, the borough received an underpayment of state aid of as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2017	6	\$ 4,588	\$ 27,528

Although the additional state aid will be allocated to the borough, the full amount of the 2017 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We 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: Compliance will be evaluated during our next engagement.

WEST GROVE BOROUGH POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 2 and 3 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 33,084	\$ 15,832	\$ 39,915
Interest	67,318	66,687	69,167
Difference between expected and actual experience	(39,122)	-	(35,919)
Changes of assumptions	-	(4,815)	40,743
Transfers	-	-	11,970
Benefit payments, including refunds of member contributions	<u>(47,990)</u>	<u>(63,192)</u>	<u>(62,014)</u>
Net Change in Total Pension Liability	13,290	14,512	63,862
Total Pension Liability – Beginning	<u>1,214,547</u>	<u>1,227,837</u>	<u>1,242,349</u>
Total Pension Liability - Ending (a)	<u><u>\$ 1,227,837</u></u>	<u><u>\$ 1,242,349</u></u>	<u><u>\$ 1,306,211</u></u>
Plan Fiduciary Net Position			
Contributions – employer *	\$ 14,566	\$ 20,046	\$ 8,656
Contributions – PMRS assessment	-	-	20
PMRS investment income	79,025	69,678	68,942
Market value investment income	(102,002)	(115,648)	26,070
Transfers	-	-	11,970
Benefit payments, including refunds of member contributions	(47,990)	(63,192)	(62,014)
PMRS administrative expense	(80)	(80)	(80)
Additional administrative expense	<u>(3,031)</u>	<u>(2,905)</u>	<u>(3,378)</u>
Net Change in Plan Fiduciary Net Position	(59,512)	(92,101)	50,186
Plan Fiduciary Net Position – Beginning	<u>1,327,314</u>	<u>1,267,802</u>	<u>1,175,701</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,267,802</u></u>	<u><u>\$ 1,175,701</u></u>	<u><u>\$ 1,225,887</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ (39,965)</u></u>	<u><u>\$ 66,648</u></u>	<u><u>\$ 80,324</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	103.25%	94.64%	93.85%
Estimated Covered Employee Payroll	\$ 145,241	\$ 69,185	\$ 221,081
Net Pension Liability as a Percentage of Covered Employee Payroll	(27.52%)	96.33%	36.33%

* 2014 employer contributions include \$80 administrative expenses and \$493 allocated insurance premiums.

WEST GROVE BOROUGH 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 borough as of December 31, 2014 and 2015, calculated using the discount rate of 5.5%, as well as what the borough'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:

	<u>1% Decrease (4.5%)</u>	<u>Current Discount Rate (5.5%)</u>	<u>1% Increase (6.5%)</u>
Net Pension Liability - 12/31/14	\$ 114,885	\$ (39,965)	\$ (167,936)
Net Pension Liability - 12/31/15	\$ 222,329	\$ 66,648	\$ (62,012)

The following presents the net pension liability of the borough as of December 31, 2016, calculated using the discount rate of 5.25%, as well as what the borough'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:

	<u>1% Decrease (4.25%)</u>	<u>Current Discount Rate (5.25%)</u>	<u>1% Increase (6.25%)</u>
Net Pension Liability - 12/31/16	\$ 265,881	\$ 80,324	\$ (71,249)

WEST GROVE BOROUGH 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	\$ 1,256,562	\$ 1,114,524	\$ (142,038)	112.7%
01-01-15	1,305,547	1,227,837	(77,710)	106.3%
01-01-17	1,331,118	1,306,211	(24,907)	101.9%

WEST GROVE BOROUGH 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 GROVE BOROUGH POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 14,342	100.0%
2013	13,386	100.0%
2014	13,993	100.0%
2015	20,046	100.0%
2016	8,656	100.2%
2017	None	N/A

Note: The West Grove Borough Council entered into an intergovernmental cooperation agreement with the New Garden Township Supervisors through Ordinance No. 2016-01 to merge the two municipalities' police departments effective January 1, 2017. West Grove Borough transferred all of the police pension plan's assets and related liabilities for its active members to the Southern Chester County Regional Police Department Pension Plan effective January 1, 2017, and police services are now being provided to West Grove Borough by the Southern Chester County Regional Police Department. The West Grove Borough Police Pension Plan remains in existence for its current retirees.

WEST GROVE BOROUGH 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	N/A
Remaining amortization period	N/A
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations

WEST GROVE BOROUGH POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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