

COMPLIANCE AUDIT

South Whitehall Township Police Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

March 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Board of Township Commissioners
South Whitehall Township
Lehigh County
Allentown, PA 18104

We have conducted a compliance audit of the South Whitehall Township Police Pension Plan for the period January 1, 2017 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 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 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 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 plan members who retired and/or 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 and/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 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the South Whitehall 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,

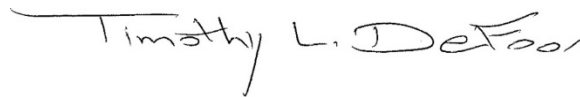
interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objectives.

The results of our procedures indicated that, in all significant respects, the South Whitehall 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 – Inconsistent Pension Benefit

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 South Whitehall 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.

Handwritten signature of Timothy L. DeFoor in black ink.

Timothy L. DeFoor
Auditor General

February 16, 2021

CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	2
Finding and Recommendation:	
Finding – Inconsistent Pension Benefits	3
Supplementary Information	5
Report Distribution List	9

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 South Whitehall 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 South Whitehall Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 149, as amended, 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 June 4, 1971. Active members are required to contribute 5 percent of compensation to the plan; however, member contributions were reduced to 1.5 percent of compensation for years 2017 and 2018, and 2 percent of compensation for the year 2019. As of December 31, 2019, the plan had 40 active members, 3 terminated members eligible for vested benefits in the future, and 30 retirees receiving pension benefits.

SOUTH WHITEHALL TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Recommendation

South Whitehall Township has complied with the prior recommendation concerning the following:

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

During the current audit period, municipal officials complied with the instructions that accompany Certification Form AG 385 and accurately reported the required pension data.

SOUTH WHITEHALL TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Inconsistent Pension Benefits

Condition: As previously recommended in a verbal observation during our prior audit, the pension plan’s governing document, Ordinance No. 913, contains a DROP benefit provision that conflicts with the collective bargaining agreement between the police officers and the township and does not currently conform to Act 205, as follows:

Benefit Provision	Governing Document	Collective Bargaining Agreement	Act 205
DROP Program	The program permits a Participant who has met the age and service requirements of Section 1.185 of the Plan to become a former Participant but continue in active employment with the Employer for up to four years. From the period of time a Participant enters the DROP program until the person ceases active employment with the Employer, such Participant’s Normal Retirement Benefit shall be segregated within the Plan without interest...	After 25 years of service and upon reaching the age of 50, a Police Officer may enter the Deferred Retirement Option Program (DROP). By entering the DROP, a Police Officer commits to resign employment within three years or less of entering into the DROP. <i>(No interest is specified in the CBA)</i>	The ordinance establishing the DROP shall specify a uniform participation period of not more than five years in duration... A separate interest-bearing subsidiary DROP participant account shall be established for each DROP participant. While a retired member is employed as a DROP participant, the member's monthly, normal retirement benefit and interest thereon shall be credited to the DROP participant's subsidiary DROP participant account... The interest shall be compounded and credited monthly at the actual rate earned by the DROP participant account that shall not be less than 0% nor more than 4 1/2%.

SOUTH WHITEHALL TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

In addition, the most recent actuarial valuation report (Form C) for the police pension plan, with a valuation date of January 1, 2019, submitted to the Public Employee Retirement Commission, reported the benefit provision included in the collective bargaining agreement.

Criteria: A governing document that contains clearly defined and updated benefit provisions including those negotiated during collective bargaining is a prerequisite for the consistent, sound administration of retirement benefits. Additionally, the pension plan's benefit structure should be in compliance with the provisions of Act 205 (*as amended by Act 44*).

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's governing document and the collective bargaining agreement contained consistent benefit provisions as recommended during the prior audit.

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan.

Recommendation: We recommend that municipal officials amend the plan's governing document as necessary to reflect all benefit obligations of the pension plan and eliminate inconsistencies among the various plan documents.

We also recommend that the township comply with Act 205 in regards to its DROP program provisions at its earliest opportunity to do so.

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

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

SOUTH WHITEHALL 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 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)
01-01-15	\$ 13,610,189	\$ 16,283,109	\$ 2,672,920	83.6%
01-01-17	14,070,585	17,697,177	3,625,592	79.5%
01-01-19	14,545,861	18,855,373	4,309,512	77.1%

Note: The market values of the plan’s assets at 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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.

SOUTH WHITEHALL 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.

SOUTH WHITEHALL 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	\$ 313,311	\$ 313,311	\$ -	\$ -	-
2011	529,157	529,157	-	-	-
2012	569,967	569,967	-	-	-
2013	712,818	712,818	-	-	-
2014	715,489	747,815	(32,326)	2,752,440	27.17%
2015	966,966	966,994	(28)	2,835,238	34.11%
2016	875,856	875,856	-	2,814,122	31.12%
2017	837,979	859,899	(21,920)	3,175,209	27.08%
2018	840,360	840,360	-	3,306,211	25.42%
2019	1,037,781	1,037,781	-	3,748,891	27.68%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

SOUTH WHITEHALL 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	10 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.875%
Projected salary increases	5.00%
Cost-of-living adjustments	None

SOUTH WHITEHALL TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Christina T. Morgan
President, Board of Township Commissioners

Ms. Renee Bickel
Township Manager

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.