

COMPLIANCE AUDIT

Caln Township Police Pension Plan Chester County, Pennsylvania

November 2024



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Commissioners
Caln Township
Chester County
Thorndale, PA 19372

We have conducted a compliance audit of the Caln Township Police Pension Plan 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings 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:

- For the period January 1, 2022 to December 31, 2023, 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 the period January 1, 2022 to December 31, 2023, 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
- For the period January 1, 2022 to December 31, 2023, 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 the years in the period noted and examining documents evidencing the deposit of these employee contributions into the pension plan.
- For the period January 1, 2019 to December 31, 2023, we determined whether retirement benefits calculated for plan members who retired and plan members who elected to vest during the period noted 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 to the recipients.
- We determined whether the January 1, 2023 actuarial valuation report was prepared and submitted by March 31, 2024 in accordance with Act 205 and whether selected information provided on this report 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.
- For the period January 1, 2022 to December 31, 2023, 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.

Caln Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Caln 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 Caln Township Police Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies for the periods noted above, except as noted in the following findings further discussed later in this report:

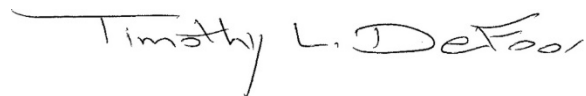
Finding No. 1 – Noncompliance With Prior Audit Recommendation –
Inconsistent And Unauthorized Pension Benefit Provision

Finding No. 2 – Incorrect Pension Benefit Calculations

Finding No. 1 contained in this audit report repeats a condition that was cited in our previous report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported finding and strongly encourage timely implementation of the recommendations noted in this audit report.

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 Caln 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.



Timothy L. DeFoor
Auditor General
September 26, 2024

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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 two 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 Caln 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. § 761 et seq.

The Caln Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2008-13, 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 May 29, 1956. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2023, the plan had 18 active members, 5 terminated members eligible for vested benefits in the future, and 15 retirees receiving pension benefits from the plan.

CALN TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Recommendation

Caln Township has not complied with the prior recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Unauthorized Pension Benefit Provision

CALN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Inconsistent And Unauthorized Pension Benefit Provision

Condition: The prior audit report disclosed that the service-related disability benefit provision contained in the collective bargaining agreement (CBA) between the township and its police officers was revised to be in accordance with Act 600, but the plan’s governing document still contained a service related disability benefit provision that is not in accordance with Act 600. During the current period subject to audit, the governing document has not been amended and continues to contain a service-related disability benefit provision that is not in accordance with Act 600 and is inconsistent with the CBA, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>	<u>Act 600</u>
Service-related disability benefit	A participant who retires due to a Total and Permanent Disability, ... shall be eligible for a disability retirement benefit equal to fifty percent (50%) of the member’s Final Average Monthly Salary at the time the disability was incurred (excluding overtime), less any Workers Compensation benefits receivable. A participant who receives benefits for the same injuries under social security disability shall have the participant’s disability benefits offset or reduced by the amount of such benefits.	A participant who retires due to a Total and Permanent Disability, ... shall be eligible for a disability benefit from the police pension plan equal to fifty percent (50%) of the member’s Salary at the time the disability was incurred ... (excluding overtime), less any Workers Compensation benefits receivable. A participant who receives benefits for the same injuries under social security disability shall have the participant’s disability benefits offset or reduced by the amount of such benefits.	The benefit must be in conformity by the plan’s governing document at <u>no less than 50% of the member’s salary at the time the disability was incurred</u> , reduced by the amount of social security disability benefits received for the same injury. (Emphasis added.)

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions that are in compliance with Act 600.

Cause: Plan officials again failed to ensure compliance with this department’s prior audit recommendation.

CALN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Effect: Inconsistent plan documents could result in inconsistent or improper benefit calculations and incorrect benefit payments from the pension plan. In addition, maintaining a benefit structure which is not in compliance with Act 600 could result in plan members or their beneficiaries receiving incorrect benefit amounts or being denied benefits to which they are statutorily entitled.

Recommendation: We again recommend that municipal officials amend the plan’s governing document as necessary to reflect all benefit obligations of the pension plan, eliminate inconsistencies among the various plan documents, and ensure that the plan’s governing document is in compliance with Act 600 at their earliest opportunity to do so.

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

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

Finding No. 2 – Incorrect Pension Benefit Calculations

Condition: A member of the pension plan who retired on February 1, 2023 and two members of the pension plan who elected to vest on September 9, 2022 and August 5, 2022, respectively, had their pension benefits incorrectly determined because municipal officials failed to accurately calculate the members’ final monthly average salary in accordance with the plan’s governing document and collective bargaining agreement due to the inclusion of a lump sum payment for unused vacation days.

Criteria: Ordinance No. 2010-03, at Section 1, states, in part:

“Compensation” shall mean the total remuneration of the Employee, whether salary or hourly wages including overtime pay, longevity pay and any other form of compensation paid by the Employer for police services rendered but shall exclude any irregular compensation such as reimbursement expenses, non-salary compensation or any other payments or allowances, and any severance benefits, including payment for accumulated but unused vacation, sick time or holidays at the time of retirement.

CALN TOWNSHIP POLICE PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Furthermore, the collective bargaining agreement, at Article 15, Section E1, states, in part:

Such retirement pay shall be computed at Fifty (50%) percent of yearly salary, including base pay, overtime, longevity and extra-duty pay, but shall exclude any irregular compensation such as reimbursed expenses, non-salary compensation or any other payments or allowances, such as uniform allowances, and any severance benefits, such as payment for accumulated but unused vacation, sick time or holidays at the time of retirement.

Cause: Municipal officials failed to establish adequate internal control procedures to ensure the pension benefits were properly determined in accordance with the plan's governing document and collective bargaining agreement.

Effect: The plan is paying pension benefits to a retiree in excess of those authorized by the plan's governing document in the amount of \$139 per month totaling \$2,641 as of the date of this report. In addition, the failure to determine benefits in accordance with provisions in the plan's governing document could result in the vested members receiving future excess benefits of \$46 and \$53, respectively, per month.

Recommendation: We recommend that municipal officials adjust the retiree's and vested members' pension benefits in accordance with the provisions contained in the plan's governing document.

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

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

CALN 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, 2019, 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)
01-01-19	\$ 8,655,417	\$ 10,807,461	\$ 2,152,044	80.1%
01-01-21	10,935,730	11,900,827	965,097	91.9%
01-01-23	13,338,410	12,688,200	(650,210)	105.1%

Note: The market values of the plan’s assets at 01-01-19, 01-01-21, and 01-01-23 have been adjusted to reflect the smoothing of gains and/or losses over a four-year averaging period, which will be limited to a maximum of 120 percent and a minimum of 80 percent of 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.

CALN 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.

CALN TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 468,734	\$ 468,734	\$ -	\$1,714,193	27.34%
2015	539,937	539,937	-	1,806,387	29.89%
2016	546,388	546,388	-	1,932,398	28.28%
2017	721,776	721,776	-	1,571,340	45.93%
2018	670,139	670,139	-	1,747,000	38.36%
2019	737,038	737,038	-	1,783,674	41.32%
2020	671,632	671,632	-	1,886,616	35.60%
2021	664,132	664,132	-	1,831,588	36.26%
2022	627,459	627,459	-	1,607,204	39.04%
2023	525,085	525,085	-	*	

* Due to the timing of this audit, covered-employee payroll for 2023 was not provided in this schedule.

CALN 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, 2023
Actuarial cost method	Entry age normal
Amortization method	Not applicable
Remaining amortization period	None
Asset valuation method	4-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	6.75%
Projected salary increases	4.75%
Cost-of-living adjustments	For participants who retire after April 1, 2010, effective on each anniversary of retirement, a retiree will receive an increase in the monthly benefit equal to the percentage change in the Consumer Price Index (CPI-W). The total of all increases may not exceed 8% of final monthly salary or 30% of the retiree’s original monthly benefit.

CALN TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Paul Mullin
Council President

Mr. Joshua Young
Council Vice President

Mr. Mark Evans
Township Commissioner

Ms. Jane Kennedy
Township Commissioner

Ms. Lorraine Tindaro
Township Commissioner

Mr. Don Vymazal
Township Manager

Ms. Lisa Swan
Finance Director

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.