

COMPLIANCE AUDIT

Bensalem Township Police Pension Plan Bucks County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

January 2016



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Township Council
Bensalem Township
Bucks County
Bensalem, PA 19020

We have conducted a compliance audit of the Bensalem Township Police Pension Plan for the period January 1, 2012 to December 31, 2014. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform 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 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 7 of 12 of the plan members who retired 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 benefit due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for 1 of the 2 plan members who elected to vest during the current audit period, represent payments to all (and only) those entitled to receive them and were properly determined in accordance with the plan's governing document, applicable laws and regulations by recalculating the amount of the pension benefit due and comparing these amounts to supporting documentation evidencing amounts determined.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

Bensalem 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 Bensalem Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the township's internal controls as they relate to the township's compliance with those requirements and that we considered to be significant within the context of our audit objective, and assessed whether those significant controls were properly designed and implemented. Additionally and as previously described, we tested transactions, assessed official actions, performed analytical

procedures, and interviewed selected officials 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 Bensalem 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 – Pension Benefit Not Authorized By Act 600 And The Plan’s
Governing Document

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 Bensalem Township and, where appropriate, their responses have been included in the report.

December 15, 2015


EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding – Pension Benefit Not Authorized By Act 600 And The Plan’s Governing Document.....	3
Supplementary Information	5
Report Distribution List	11

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. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system state aid and of every municipal pension plan and fund in which general municipal pension system state aid is deposited.

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 Bensalem Township Police Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission 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 Bensalem Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2004-07, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established January 1, 1971. Active members are required to contribute 2.5 percent of wages to the plan. As of December 31, 2014, the plan had 97 active members, 3 terminated members eligible for vested benefits in the future, and 90 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2014, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	If hired before January 1, 1999: Age 50 and 25 years of service. If hired after January 1, 1999: Age 55 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment of \$25 per year of service over 25 years up to a maximum of \$100 per month.

Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

Service Related Disability Benefit:

If hired before January 1, 1994, a monthly benefit equal to 80% of average monthly compensation. If hired on or after January 1, 1994, a monthly benefit equal to 50% of average monthly compensation, offset by Social Security disability benefits received for the same injury.

BENSALEM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Pension Benefit Not Authorized By Act 600 And The Plan’s Governing Document

Condition: Plan officials included accumulated unused vacation leave that was not earned during the pension computation period in the determination of final average salary used to calculate monthly pension benefits for 1 police officer who retired subsequent to the current audit period.

Criteria: Section 5(c) of Act 600 states, in part:

Monthly pension or retirement benefits other than length of service increments shall be computed at one-half the monthly average salary of such member during not more than the last sixty nor less than the last thirty-six months of employment.

Although Act 600 does not define “salary,” the department has concluded, based on a line of court opinions, that the term does not encompass lump-sum payments for leave that was not earned during the pension computation period. Furthermore Ordinance No. 2004-07 at Section 1.02 states, in part:

Compensation means the average total earnings, compensation and wages earned and payable, during the benefit the benefit calculation period, including base wage pay or salary, overtime pay, vacation pay, longevity incremental pay, holiday pay, education incremental pay, and any other direct monetary compensation excluding reimbursed expenses or payments made in lieu of expenses and non-monetary compensation.

Only vacation pay received by a police employee as normal wages in a given year will be included in the calculation of average monthly wages or compensation. Likewise, the payment of unused compensatory time at retirement shall not be included in the calculation of average monthly wages or compensation. Thus, any lump sum payment of unused and/or accrued vacation and/or compensatory time at the time of retirement shall not be included in the calculation of a police employee’s average monthly compensation for pension purposes, i.e, “backloading” is prohibited.

Cause: Plan officials believed that their methodology for calculating pension benefits was authorized by Act 600.

Effect: The plan is paying pension benefits to 1 retiree in excess of those authorized by Act 600 and the plan’s governing document. Through the date of this report, the retiree is receiving total excess benefits of \$459 per month, which totaled approximately \$5,508 from the date of the member’s retirement.

BENSALEM TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Providing unauthorized pension benefits increases the plan's pension costs and reduces the amount of funds available for investment purposes or for the payment of authorized benefits or administrative expenses. Furthermore, the increased costs to the pension plan as a result of the excess pension benefits could result in the receipt of excess state aid in the future and increase the municipal contributions necessary to fund the plan in accordance with Act 205 funding standards.

Recommendation: We recommend that the pension benefits of any retirees whose benefits were not determined in accordance with Act 600 and the plan's governing document be adjusted prospectively. In addition, any excess benefit payments made from the plan will be deemed ineligible for funding with state aid. Accordingly, the pension plan's actuary may be required to determine the impact, if any, of the excess benefit payments on the township's future state aid allocations and submit this information to the Department. If it is determined the excess benefit payments had an impact on the township's future state aid allocations after the submission of this information, the plan's actuary would then be required to contact the Department to verify the overpayment of state aid received. Plan officials would then be required to reimburse the overpayment to the Commonwealth.

We further recommend that future pension benefits be calculated and paid in accordance with the applicable provisions contained in the plan's governing document in effect at the time of a plan member's retirement.

Management's Response: The employee in question is the Deputy Director of Public Safety for the Township of Bensalem. He is a full-time sworn police officer that is not covered by the CBA. As such he is covered under the Township's policy for vacation time used by department heads.

The Township's policy is to allow department heads to either accrue their annual vacation bank or they have the option to be paid for any unused vacation time. These payments are included in their W-2 wages and as such pension deductions are withheld from this payment.

The employee receives 200 hours on an annual basis and in 2014 he was paid for his vacation bank in the amount of 1,160 hour of accrued vacation leave.

Management will review the Township vacation policy as it relates to pension purposes to alleviate any future issues.

Auditor's Conclusion: All members of the plan are subject to the provisions of Act 600 and the plan's governing document. Therefore, based on the criteria previously cited, the finding and recommendation remain as stated. Compliance will be evaluated during our next audit of the plan.

BENSALEM TOWNSHIP POLICE PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

The supplementary information contained on Pages 5 and 6 reflect 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 YEAR ENDED DECEMBER 31, 2014

Total Pension Liability	
Service cost	\$ 1,588,461
Interest	4,711,748
Benefit payments, including refunds of member contributions	(3,051,986)
Net Change in Total Pension Liability	3,248,223
Total Pension Liability - Beginning	62,760,833
Total Pension Liability - Ending (a)	\$ 66,009,056
Plan Fiduciary Net Position	
Contributions – employer & state aid	\$ 2,175,418
Contribution – member	280,962
Net investment income	3,230,372
Benefit payments, including refunds of member contributions	(3,051,986)
Net Change in Plan Fiduciary Net Position	2,634,766
Plan Fiduciary Net Position - Beginning	44,752,414
Plan Fiduciary Net Position - Ending (b)	\$ 47,387,180
Net Pension Liability - Ending (a-b)	\$ 18,621,876
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	71.8%
Estimated Covered Employee Payroll	\$ 11,185,130
Net Pension Liability as a Percentage of Covered Employee Payroll	166.5%

BENSALEM TOWNSHIP 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 township, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability	\$ 26,844,284	\$ 18,581,331	\$ 11,665,646

Note: The net pension liability at the current discount rate does not reflect a \$40,545 adjustment that was made to net investment income, which is reflected in the net pension liability balance presented on the Schedule of Changes in the Net Pension Liability and Related Ratios.

SCHEDULE OF INVESTMENT RETURNS

Annual Money-Weighted Rate of Return, Net of Investment Expense:

2014	6.89%
------	-------

BENSALEM 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, 2009, 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)
01-01-09	\$ 47,799,548	\$ 47,837,020	\$ 37,472	99.9%
01-01-11	51,432,587	52,367,193	934,606	98.2%
01-01-13	51,825,316	59,648,835	7,823,519	86.9%

Note: The market values of the plan's assets at 01-01-09, 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 and 120 percent of the 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.

BENSALEM 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.

BENSALEM TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2009	\$ 1,040,814	100.0%
2010	1,005,986	100.0%
2011	1,226,520	100.0%
2012	1,365,894	100.0%
2013	1,479,583	100.0%
2014	2,175,418	100.0%

BENSALEM 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, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	16 years
Asset valuation method	Asset smoothing subject to corridor between 80-120% of market value.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	An increase in the monthly benefit equal to the percentage change in the Consumer Price Index for the Philadelphia Region. The total increases may not exceed 30% of the original benefit.

BENSALEM TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Bensalem Township Police Pension Plan
Bucks County
2400 Byberry Road
Bensalem, PA 19020

The Honorable Joseph DiGirolamo	Mayor
Mr. Tony Belfield	Council President
Mr. Joseph Knowles	Vice President
Mr. Joseph Pilieri	Council Member
Mr. Bryan Allen	Council Member
Mr. William Cmorey	Director of Administration
Mr. John Chaykowski	Finance 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.