

COMPLIANCE AUDIT

Springfield Township Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

May 2016



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 Commissioners
Springfield Township
Delaware County
Springfield, PA 19064

We have conducted a compliance audit of the Springfield Township Police Pension Plan for the period January 1, 2014 to December 31, 2015. 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 our 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 audit 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 audit 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 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 the plan member who retired subsequent to the audit 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- × We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.

Springfield Township contracted with an independent certified public accounting firm for an audit of its basic financial statements for the year ending December 31, 2014 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 Springfield 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Springfield 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 Disability Benefit Provision

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. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates **the plan's funded ratio is 66.3% as of January 1, 2015**, which is the most recent data available. We encourage township officials to monitor the funding of the police pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Springfield 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.

May 5, 2016



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. 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 Springfield 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- 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 Springfield Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1320, 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 on October 27, 1953. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2015, the plan had 32 active members, no terminated members eligible for vested benefits in the future, and 32 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement Age 50 and 25 years of service

Early Retirement None

Vesting 100% after 12 years of service

Retirement Benefit:

50% of final 36 months average salary, plus a service increment of \$100 per month for each year of service in excess of 25 years, up to a maximum of \$500 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:

Greater of either 75% of final average 36 month salary or 50% of member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

SPRINGFIELD TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Status Of Prior Audit Recommendation

· Pension Benefit Not Authorized By Act 600

The prior audit report for the years ended December 31, 1999 and 2000 initially disclosed that the collective bargaining agreement between the township and its police officers allowed for an officer's accrued time off and severance pay to be included in the calculation of a pension benefit, which is a practice not authorized by Act 600. This provision had been included in subsequent collective bargaining agreements between the township and its police officers. However, the collective bargaining agreement for the period January 1, 2012 to December 31, 2014 properly eliminated the inclusion of accrued time off and severance pay from pension calculations, but only for officers hired after December 31, 2011. The current collective bargaining agreement for the period January 1, 2015 to December 31, 2017 contains the same provision. Subsequent to the current audit period, a police officer retired and had severance pay included in his pension calculation; however, since the township received its state aid allocations based on unit value during the current audit period, the township did not receive any state aid attributable to the excess benefits being provided to this retiree or existing retirees. The Department will continue to monitor the effect of the excess benefits being provided to existing and future retirees on the township's state aid allocations during future audits of the plan.

Compliance With Prior Audit Recommendation

Springfield Township has complied with the prior audit recommendation concerning the following:

· Unauthorized Provision For A Killed In Service Benefit

The killed-in-service provision was removed from the collective bargaining agreement for the period January 1, 2015 to December 31, 2017. In addition, the township adopted Ordinance No. 1555 which removed the killed-in-service benefit provision from the plan's governing document.

SPRINGFIELD TOWNSHIP POLICE PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Inconsistent Disability Benefit Provision

Condition: The pension plan’s governing document, Ordinance No. 1320, as amended, contains a service-related disability benefit provision that conflicts with the collective bargaining agreement between the police officers and the township, as follows:

<u>Benefit Provision</u>	<u>Governing Document</u>	<u>Collective Bargaining Agreement</u>
Service-related disability benefit	If a member retires because of a Total and Permanent Disability, he shall be entitled to receive a pension benefit equal to the greater either of 75% of his Final Average Compensation, or 50% of his salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.	In the event a police officer suffers a service connected disability, to the extent that he is unable to perform all of his duties as a police officer, and the officer meets the requirements for total disability under Social Security, the officer will be entitled to a disability benefit of 100% of his final thirty-six (36) months average total salary. The disability benefit will be offset by any Social Security benefits for which the officer qualifies as a result of the same disability.

Criteria: The plan’s governing document and the collective bargaining agreement should contain consistent benefit provisions to ensure the sound administration of retirement benefits.

Cause: Municipal officials failed to update the plan’s governing document.

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 take appropriate action to ensure the plan’s governing document and the collective bargaining agreement contain consistent benefit provisions at their earliest opportunity to do so.

Management’s Response: Municipal officials agreed with the finding without exception. Municipal officials adopted an ordinance on May 10, 2016 to amend the plan’s governing document to provide a service-related disability benefit provision consistent with the provision contained in the collective bargaining agreement.

Auditor’s Conclusion: Based on the documentation submitted, municipal officials have complied with the finding recommendation.

SPRINGFIELD 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, 2015

Total Pension Liability	
Service cost	\$ 508,012
Interest	1,974,543
Change of benefit terms	(139,537)
Difference between expected and actual experience	(264,851)
Changes of assumptions	634,834
Benefit payments, including refunds of member contributions	(1,239,963)
Net Change in Total Pension Liability	<u>1,473,038</u>
Total Pension Liability - Beginning	24,563,305
Total Pension Liability - Ending (a)	<u><u>\$ 26,036,343</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 1,739,088
Contribution - member	171,146
Net investment income	(154,980)
Benefit payments, including refunds of member contributions	(1,239,963)
Administrative expense	(18,004)
Net Change in Plan Fiduciary Net Position	<u>497,287</u>
Plan Fiduciary Net Position - Beginning	15,399,031
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 15,896,318</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 10,140,025</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.1%
Estimated Covered Employee Payroll	\$ 3,056,794
Net Pension Liability as a Percentage of Covered Employee Payroll	331.7%

SPRINGFIELD 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 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability	\$ 13,017,181	\$ 10,140,025	\$ 7,696,823

SCHEDULE OF INVESTMENT RETURNS

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

2014	7.69%
2015	(1.12%)

SPRINGFIELD 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, 2011, 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)
01-01-11	\$ 12,036,447	\$ 19,932,744	\$ 7,896,297	60.4%
01-01-13	13,509,915	22,381,119	8,871,204	60.4%
01-01-15	16,425,981	24,793,751	8,367,770	66.3%

Note: The market value of the plan's assets at 01-01-11 has been adjusted to reflect the smoothing of gains and/or losses at 130 percent of market value. The market values of the plan's assets at 01-01-13 and 01-01-15 have been adjusted to reflect the smoothing of gains and/or losses at 120 percent of market value. These methods 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.

SPRINGFIELD 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.

SPRINGFIELD 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
2010	\$ 808,950	100.0%
2011	907,917	100.0%
2012	968,944	100.0%
2013	1,190,608	113.9%
2014	1,514,155	115.1%
2015	1,509,857	115.2%

SPRINGFIELD 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, 2015
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 describe 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	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	3.0% per annum

SPRINGFIELD 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. Jeff Rudolph
President, Board of Township Commissioners

Mr. Edward P. Kelly
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Assistant Township Manager

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