

# COMPLIANCE AUDIT

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## Nether Providence Township Non-Uniformed Pension Plan Delaware County, Pennsylvania For the Period January 1, 2012 to December 31, 2014

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May 2015



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  
Nether Providence Township  
Delaware County  
Wallingford, PA 19086

We have conducted a compliance audit of the Nether Providence Township Non-Uniformed 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 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 that there were no benefit calculations prepared for the years covered by our audit period.
- × 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.

Nether Providence Township contracted with an independent certified public accounting firm for audits of its financial statements for the years ending December 31, 2012 and 2013 prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 Nether Providence Township Non-Uniformed 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 Nether Providence Township Non-Uniformed 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 – Failure To Implement Act 44 Mandatory Distressed Provisions

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 Nether Providence 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.



EUGENE A. DEPASQUALE  
Auditor General

April 16, 2015

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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 Nether Providence Township Non-Uniformed 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.

The Nether Providence Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 527, as amended. The plan was established January 1, 1958. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2014, the plan had 14 active members, 4 terminated members eligible for vested benefits in the future, and 2 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 | Age 65 and 15 years of service.  |
| Early Retirement  | Age 65 and 10 years of service.  |
| Vesting           | A member is 10% vested per year of service up to 100% after 10 years of service. |

### Retirement Benefit:

Benefit equals 50% of final 36 months average salary.

### Survivor Benefit:

|                               |  |
|-------------------------------|--|
| Before Retirement Eligibility | Refund of member contributions plus interest.  |
| After Retirement Eligibility  | The normal form of payment is a life annuity. At retirement, the participant may elect an optional form of payment that is an actuarial equivalent of the normal form. |

### Disability Benefit:

The accrued benefit at date of disablement, reduced by 50% of Social Security disability benefits, and by 100% of workers compensation and any other disability benefit provided by the township.

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Nether Providence Township has complied with the prior audit recommendation concerning the following:

- Incorrect Determination Of Survivor Benefit

The surviving spouse's benefit was properly reduced to the correct amount effective February 1, 2013.

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Failure To Implement Act 44 Mandatory Distressed Provisions**

Condition: Act 205 was amended on September 18, 2009, through the adoption of Act 44 of 2009. Among several provisions relating to municipal pension plans, the act provides for the implementation of a distress recovery program. Three levels of distress have been established:

| <u>Level</u> | <u>Indication</u> | <u>Funding Criteria</u> |
|--------------|-------------------|-------------------------|
| I            | Minimal distress  | 70-89%                  |
| II           | Moderate distress | 50-69%                  |
| III          | Severe distress   | Less than 50%           |

Based on the plan’s funded ratio of 79.5% as of January 1, 2011, in aggregation with the funded ratio of the township’s police pension plan, the Public Employee Retirement Commission (PERC) issued a notification in 2012 that the township was in Level II moderate distress status. Subsequently, based on the plan’s funded ratio of 72.4% as of January 1, 2013 in aggregation with the funded ratio of the township’s police pension plan, PERC issued another notification in 2014 that the township was again in Level II moderate distress status.

Included with the determination notices, PERC sent the municipality the Act 205 Recovery Program Election Form outlining the mandatory remedies that must be implemented and the voluntary remedies that the municipality could elect to implement. This form was required to be signed by the plan’s Chief Administrative Officer and returned to PERC.

Although the municipality submitted the election forms to PERC, the township has not complied with the plan for administrative improvement.

Criteria: Act 205, amended by Act 44, at Section 605(a), states:

Recovery program level II.

- (a) Mandatory remedies. Any municipality to which level II of the recovery program applies shall utilize the following remedies:
  - (1) The aggregation of trust funds pursuant to section 607(b).
  - (2) The submission of a plan for administrative improvement pursuant to section 607(i).

Cause: Municipal officials failed to establish adequate internal control procedures to ensure that the mandatory distress remedies have been implemented.

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Effect: The municipality is not in compliance with the Act 44 mandatory distress remedy provisions applicable to Level II which are designed to improve the funding status and administrative efficiency of its pension plans.

Recommendation: We recommend that municipal officials contact PERC for guidance in the implementation of the mandatory distress remedies applicable to Level II pursuant to Act 44 of 2009.

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

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

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED 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)                        | (5)                       | (6)   |
|--------------------------------|--|--|--|----------------------------|---------------------------|---|
| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br>(b) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability<br>(b) - (a) | Funded<br>Ratio<br>(a)/(b) | Covered<br>Payroll<br>(c) | Unfunded<br>(Assets in<br>Excess of)<br>Actuarial<br>Accrued<br>Liability as a<br>% of Payroll<br>[(b-a)/(c)] |
| 01-01-09                       | \$ 1,270,006                           | \$ 1,322,913   | \$ 52,907  | 96.0%                      | \$ 570,291                | 9.3%  |
| 01-01-11                       | 1,269,474                              | 1,596,242  | 326,768  | 79.5%                      | 612,981                   | 53.3%   |
| 01-01-13                       | 1,410,881                              | 1,948,113  | 537,232  | 72.4%                      | 739,502                   | 72.6%   |

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 over a 4-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.

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED 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.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

| Year Ended December 31 | Annual Required Contribution | Percentage Contributed |
|------------------------|------------------------------|------------------------|
| 2009                   | \$ 38,537                    | 100.0%                 |
| 2010                   | 34,574                       | 100.0%                 |
| 2011                   | 67,271                       | 100.0%                 |
| 2012                   | 66,952                       | 100.0%                 |
| 2013                   | 101,648                      | 100.0%                 |
| 2014                   | 140,759                      | 100.0%                 |

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required 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        | Fair value, 4-year smoothing |
| Actuarial assumptions:        |                              |
| Investment rate of return     | 7.0%                         |
| Projected salary increases    | 5.0%                         |
| Cost-of-living adjustments    | None assumed                 |

NETHER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Nether Providence Township Non-Uniformed Pension Plan  
Delaware County  
214 Sykes Lane  
Wallingford, PA 19086

|                      |  |
|----------------------|--|
| Mr. Nathan Much      | President, Board of Township Commissioners |
| Mr. Gary J. Cummings | Township Manager                           |
| Ms. Lisa Swan        | Finance Director                           |

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