

# COMPLIANCE AUDIT

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## Lower Salford Township Police Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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April 2019



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 Supervisors  
Lower Salford Township  
Montgomery County  
Harleysville, PA 19438

We have conducted a compliance audit of the Lower Salford Township Police Pension Plan for the period January 1, 2015 to December 31, 2018. 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 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 the plan member 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 to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, 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.

Lower Salford Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, 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 Lower Salford 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 Lower Salford 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 – Noncompliance With Prior Audit Recommendation – Member  
Contribution Provision Not In Compliance With Act 600

The finding contained in this audit report repeats a condition that was cited in our previous audit report that has not been corrected by township officials. We are concerned by the township's failure to correct this previously reported audit finding and strongly encourage timely implementation of the recommendation 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 Lower Salford 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.

April 1, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Finding and Recommendation:	
Finding – Noncompliance With Prior Audit Recommendation – Member Contribution Provision Not In Compliance With Act 600 .....	4
Supplementary Information .....	5
Report Distribution List .....	12

## 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 Lower Salford Township Police Pension Plan is also governed by implementing regulations adopted by the former 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. § 767 et seq.

The Lower Salford Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 74-4, 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 January 1, 1974. Active members are required to contribute 4 percent of compensation to the plan. As of December 31, 2018, the plan had 19 active members, 1 terminated member eligible for vested benefits in the future, and 8 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2018, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 50 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.

### 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:

Benefit equals 50% of the member's salary at the time the disability was incurred, offset by Social Security disability benefits received for the same injury.

LOWER SALFORD TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Lower Salford Township has not complied with the prior audit recommendation concerning the following as further discussed in the Finding and Recommendation section of this report:

- Member Contribution Provision Not In Compliance With Act 600



LOWER SALFORD TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Noncompliance With Prior Audit Recommendation – Member Contribution Provision Not In Compliance With Act 600**

Condition: As disclosed in the prior audit report, the pension plan’s governing document, Ordinance No. 74-4, as amended by Ordinance No. 2007-11, contains a member contribution provision that is not in compliance with Act 600, as illustrated below:

<u>Benefit Provision</u>	<u>Ordinance No. 2007-11</u>	<u>Act 600 (as amended)</u>
Member contributions	...and changing the police officer contribution from two and one-half percent (2 1/2%) to four percent (4%) of compensation in Section 29-8 (Payments into the Fund; Annual Appropriation)	Members shall pay into the fund, monthly, an amount equal to not less than 5% nor more than 8% of monthly compensation, if not covered by Social Security. The governing body of the municipality may, on an annual basis, by ordinance or resolution, reduce or eliminate payments into the fund by members.

Criteria: The police pension plan’s governing document should contain a member contribution provision that is in compliance with Act 600.

Cause: Plan officials have failed to adopt adequate internal control procedures to ensure compliance with this department’s prior audit recommendation.

Effect: The plan’s current member contribution provision does not require the municipality to annually reduce the required member contribution rate.

Recommendation: We again recommend that municipal officials, after consulting with their solicitor, take whatever action is necessary to bring the police pension plan’s benefit structure into compliance with Act 600, as amended, 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.

LOWER SALFORD TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on pages 5 through 8 reflects 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 YEARS ENDED DECEMBER 31, 2014 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 244,945	\$ 255,967
Interest	528,949	572,039
Difference between expected and actual experience	-	(340,481)
Changes of assumptions	-	438,671
Benefit payments, including refunds of member contributions	(192,765)	(205,974)
Net Change in Total Pension Liability	<u>581,129</u>	<u>720,222</u>
Total Pension Liability – Beginning	7,149,041	7,730,170
Total Pension Liability – Ending (a)	<u>\$ 7,730,170</u>	<u>\$ 8,450,392</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 381,761	\$ 392,303
Contributions – member	66,120	71,143
Net investment income	517,400	(44,646)
Benefit payments, including refunds of member contributions	(192,765)	(205,974)
Administrative expense	(18,182)	(38,280)
Net Change in Plan Fiduciary Net Position	<u>754,334</u>	<u>174,546</u>
Plan Fiduciary Net Position – Beginning	6,224,270	6,978,604
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,978,604</u>	<u>\$ 7,153,150</u>
Net Pension Liability – Ending (a-b)	<u>\$ 751,566</u>	<u>\$ 1,297,242</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.28%	84.65%
Estimated Covered Employee Payroll	\$ 1,745,838	\$ 1,905,532
Net Pension Liability as a Percentage of Covered Employee Payroll	43.05%	68.08%

LOWER SALFORD TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION  
LIABILITY AND RELATED RATIOS  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 284,909	\$ 277,861
Interest	624,719	692,272
Difference between expected and actual experience	-	66,813
Changes of assumptions	(111,273)	-
Benefit payments, including refunds of member contributions	(241,609)	(243,038)
Net Change in Total Pension Liability	<u>556,746</u>	<u>793,908</u>
Total Pension Liability – Beginning	8,450,392	9,007,138
Total Pension Liability – Ending (a)	<u>\$ 9,007,138</u>	<u>\$ 9,801,046</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 440,291	\$ 449,956
Contributions – member	74,808	76,787
Net investment income	583,280	1,319,061
Benefit payments, including refunds of member contributions	(241,609)	(243,038)
Administrative expense	(28,185)	(11,340)
Net Change in Plan Fiduciary Net Position	<u>828,585</u>	<u>1,591,426</u>
Plan Fiduciary Net Position – Beginning	7,153,150	7,981,735
Plan Fiduciary Net Position – Ending (b)	<u>\$ 7,981,735</u>	<u>\$ 9,573,161</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,025,403</u>	<u>\$ 227,885</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.62%	97.67%
Estimated Covered Employee Payroll	\$ 1,999,007	\$ 1,986,275
Net Pension Liability as a Percentage of Covered Employee Payroll	51.30%	11.47%

LOWER SALFORD 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 as of December 31, 2014, 2015, 2016, and 2017, 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 – 12/31/14	\$ 1,709,580	\$ 751,566	\$ (53,700)
Net Pension Liability – 12/31/15	\$ 2,420,193	\$ 1,297,242	\$ 366,179
Net Pension Liability – 12/31/16	\$ 2,181,921	\$ 1,025,403	\$ 63,289
Net Pension Liability – 12/31/17	\$ 1,468,049	\$ 227,885	\$ (803,525)

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
2014	\$ 381,761	\$ 381,761	\$ -	\$1,745,838	21.87%
2015	392,303	392,303	-	1,905,532	20.59%
2016	440,291	440,291	-	1,999,007	22.03%
2017	449,956	449,956	-	1,986,275	22.65%
2018	469,682	469,682	-		

\* Due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

LOWER SALFORD TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.59%
2016	7.58%
2015	(0.92%)
2014	8.02%

LOWER SALFORD 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, 2013, 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)
01-01-13	\$ 5,484,351	\$ 6,657,456	\$ 1,173,105	82.4%
01-01-15	6,636,781	7,804,936	1,168,155	85.0%
01-01-17	8,022,030	9,073,951	1,051,921	88.4%

Note: The market value of the plan's assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. The market values of the plan's assets at 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. 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.

LOWER SALFORD 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.

LOWER SALFORD 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, 2017
Actuarial cost method	Entry age normal.
Amortization method	Level dollar.
Remaining amortization period	6 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed.



LOWER SALFORD TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
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Township Manager

**Ms. Cecilia Parent**  
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