

COMPLIANCE AUDIT

Plymouth Township Non-Uniformed Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

September 2019



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**

Township Council
Plymouth Township
Montgomery County
Plymouth Meeting, PA 19462

We have conducted a compliance audit of the Plymouth Township Non-Uniformed 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 that there were no employee contributions required by the plan's governing document and applicable laws and regulations for the years covered by our audit period.
- We determined whether retirement benefits calculated for all 4 of the plan members who retired during the current 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients. We also determined whether retirement benefits calculated for all 5 of the 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 to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined.
- We determined whether the January 1, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

Plymouth 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 Plymouth 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 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 Plymouth 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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 Plymouth 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.

September 19, 2019



EUGENE A. DEPASQUALE
Auditor General

CONTENTS

	<u>Page</u>
Background.....	1
Finding And Recommendation:	
Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid.....	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 Plymouth Township Non-Uniformed 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.

The Plymouth Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 545, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 1, 1968. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 72 active members, 25 terminated members eligible for vested benefits in the future, and 36 retirees receiving pension benefits.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Last day of the month in which the participant attains age 62 and completes 5 years of service.
Early Retirement	Age 50 and 10 years of service
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

Accrued monthly pension is 2% of average monthly earnings (average of monthly earnings rates on January 1 of the highest 3 of the last 10 calendar years of service) multiplied by the number of years and months of continuous service at date of determination up to 25 years plus 1.667% of average monthly earnings multiplied by the number of years and months of continuous service at date of determination in excess of 25 years, but not greater than 60% of average monthly earnings.

For participants hired prior to January 1, 2003, the benefit will not be less than 50% of average monthly earnings multiplied by a fraction, not greater than 1, numerator of which is his years and months of continuous service at the date of determination and the denominator is the greater of 12 years or the years and months of his continuous service he would have at his normal retirement date.

Survivor Benefit:

Pre-retirement:	Upon the death of an active employee, a lump-sum benefit equal to the present value of the participant's vested accrued monthly pension as of the date of death will be paid to his beneficiary or estate.
Post-retirement:	Upon the death of a disabled or retired employee, a lump sum of \$1,500 will be paid to his beneficiary or estate. In the event of death prior to age 62 of a participant who was receiving disability retirement benefits, his or her spouse shall receive 50% of the benefit the disabled participant was receiving at the time of death for such spouse's remaining lifetime.

BACKGROUND – (Continued)

Disability Benefit:

A participant who has completed 10 years of continuous service and disabled due to a work-related injury shall receive 50% of the average salary of the highest 5 of the last 10 years of salary, less any worker's compensation. A participant who has completed 10 years of continuous service and is disabled due to a non-work related injury shall be entitled to a disability benefit equal to 30% of the average salary of the highest 5 of the last 10 years of salary.

PLYMOUTH TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify an eligible non-uniformed employee and understated payroll by \$70,158 on the Certification Form AG 385 filed in 2018. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocation was based on unit value, the township received an underpayment of state aid as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2018	1	\$ 4,684	\$ 4,684

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2018 state aid allocation was not available to be deposited timely and therefore was not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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.

PLYMOUTH TOWNSHIP NON-UNIFORMED 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	\$ 601,914	\$ 625,990
Interest	1,269,369	1,356,066
Difference between expected and actual experience	-	77,212
Changes of assumptions	-	863,051
Benefit payments, including refunds of member contributions	<u>(620,541)</u>	<u>(644,992)</u>
Net Change in Total Pension Liability	1,250,742	2,277,327
Total Pension Liability – Beginning	<u>18,444,122</u>	<u>19,694,864</u>
Total Pension Liability – Ending (a)	<u><u>\$ 19,694,864</u></u>	<u><u>\$ 21,972,191</u></u>
Plan Fiduciary Net Position		
Contributions – Employer (State and Township)	\$ 555,386	\$ 567,669
Net investment income	1,071,536	173,048
Benefit payments, including refunds of member contributions	<u>(620,542)</u>	<u>(644,992)</u>
Administrative expense	<u>(80,838)</u>	<u>(83,176)</u>
Net Change in Plan Fiduciary Net Position	925,542	12,549
Plan Fiduciary Net Position – Beginning	<u>19,910,161</u>	<u>20,835,703</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 20,835,703</u></u>	<u><u>\$ 20,848,252</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ (1,140,839)</u></u>	<u><u>\$ 1,123,939</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	105.8%	94.9%
Estimated Covered Employee Payroll	\$ 4,417,118	\$ 4,825,757
Net Pension Liability as a Percentage of Covered Employee Payroll	(25.8%)	23.3%

PLYMOUTH TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017, AND 2018

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability			
Service cost	\$ 707,281	\$ 743,359	\$ 773,093
Interest	1,515,186	1,632,649	1,751,149
Difference between expected and actual experience	-	24,240	-
Changes of assumptions	-	92,220	-
Benefit payments, including refunds of member contributions	<u>(653,356)</u>	<u>(668,421)</u>	<u>(697,872)</u>
Net Change in Total Pension Liability	1,569,111	1,824,047	1,826,370
Total Pension Liability – Beginning	<u>21,972,191</u>	<u>23,541,302</u>	<u>25,365,349</u>
Total Pension Liability – Ending (a)	<u>\$23,541,302</u>	<u>\$25,365,349</u>	<u>\$27,191,719</u>
 Plan Fiduciary Net Position			
Contributions – Employer (State and Township)	\$ 662,176	\$ 693,377	\$ 956,009
Contributions – member	-	-	1,769
Net investment income	1,375,957	3,441,905	(1,352,050)
Benefit payments, including refunds of member contributions	<u>(653,356)</u>	<u>(668,421)</u>	<u>(697,872)</u>
Administrative expense	<u>(75,220)</u>	<u>(74,929)</u>	<u>(83,842)</u>
Net Change in Plan Fiduciary Net Position	1,309,557	3,391,932	(1,175,986)
Plan Fiduciary Net Position – Beginning	<u>20,848,252</u>	<u>22,157,809</u>	<u>25,549,741</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$22,157,809</u>	<u>\$25,549,741</u>	<u>\$24,373,755</u>
 Net Pension Liability – Ending (a-b)	<u>\$ 1,383,493</u>	<u>\$ (184,392)</u>	<u>\$ 2,817,964</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	94.1%	100.7%	89.6%
 Estimated Covered Employee Payroll	\$ 5,029,053	\$ 4,891,368	\$ 5,144,100
 Net Pension Liability as a Percentage of Covered Employee Payroll	27.5%	(3.8%)	54.8%

PLYMOUTH TOWNSHIP NON-UNIFORMED 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, 2015, 2016, 2017 and 2018, calculated using the discount rate of 7.0%, 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 (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net Pension Liability – 12/31/15	\$ 3,960,725	\$ 1,123,939	\$ (1,265,144)
Net Pension Liability – 12/31/16	\$ 4,350,175	\$ 1,383,493	\$ (1,117,761)
Net Pension Liability – 12/31/17	\$ 2,978,379	\$ (184,392)	\$ (2,855,717)
Net Pension Liability – 12/31/18	\$ 6,114,530	\$ 2,817,964	\$ 31,744

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
2009	\$ 643,689	\$ 643,689	\$ -	\$ 4,498,535	14.3%
2010	909,604	909,604	-	4,372,448	20.8%
2011	920,846	920,846	-	4,085,105	22.5%
2012	594,080	594,080	-	4,172,910	14.2%
2013	604,052	604,052	-	4,391,845	13.8%
2014	555,386	555,386	-	4,417,118	12.6%
2015	567,669	567,669	-	4,825,757	11.8%
2016	662,176	662,176	-	5,029,053	13.2%
2017	693,377	693,377	-	4,891,368	14.2%
2018	956,009	956,009	-	5,144,100	18.6%

PLYMOUTH TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.33%)
2017	15.71%
2016	6.65%
2015	0.84%
2014	5.40%
2013	15.09%

PLYMOUTH 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, 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	\$ 18,032,916	\$ 17,344,975	\$ (687,941)	104.0%
01-01-15	19,949,078	19,751,206	(197,872)	101.0%
01-01-17	22,147,027	23,657,625	1,510,598	93.6%

Note: The market values of the plan's assets at 01-01-13, 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 market value. 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.

PLYMOUTH 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.

PLYMOUTH TOWNSHIP NON-UNIFORMED 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, closed
Remaining amortization period	11 years
Asset valuation method	Asset smoothing, subject to a corridor between 80-120% of market value.
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	4.0%
Cost-of-living adjustments	Annually based on the Consumer Price Index

PLYMOUTH 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

Mr. Martin J. Higgins
Chairman, Board of Township Council

Mr. Christopher G. Manero
Vice-Chairman, Board of Township Council

Mr. David Gannon
Council Member

Ms. Lenore Bruno
Council Member

Ms. Karen R. Bramblett
Council Member

Ms. Karen Weiss
Township Manager

Mr. Timothy Creelman
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.