

COMPLIANCE AUDIT

Salisbury Township Non-Uniformed Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2017 to December 31, 2018

March 2020



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
Salisbury Township
Lehigh County
Allentown, PA 18103

We have conducted a compliance audit of the Salisbury Township Non-Uniformed Pension Plan for the period January 1, 2017 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 for the years covered by our audit period due to the fact that employee contributions were appropriately waived by the municipality.
- We determined whether retirement benefits calculated for all 5 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 benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2017 actuarial valuation report was prepared and submitted in accordance with Act 205 and whether selected information provided on the report 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 the terms of the contractual agreement with the Pennsylvania Municipal Retirement System were in accordance with the plan's governing document, if separately stated, and applicable laws and regulations by comparing the terms of the contractual agreement with the plan's governing document, if separately stated, and applicable laws and regulations.

The Salisbury Township Non-Uniformed Pension Plan participates in the Pennsylvania Municipal Retirement System (PMRS), which is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating municipal pension plans. PMRS issues a separate Comprehensive Annual Financial Report, copies of which are available from the PMRS accounting office. PMRS's 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 Salisbury 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 Salisbury 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 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

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 Salisbury 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.

February 28, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale", with a long horizontal flourish extending to the right.

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 Salisbury 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 including, but not limited to, the following:

Act 15 - Pennsylvania Municipal Retirement Law, Act of February 1, 1974
(P.L. 34, No. 15), as amended, 53 P.S. § 881.101 et seq.

The Salisbury Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 05-2006-526, adopted pursuant to Act 15. The plan was recently amended through Ordinance No. 05-2019-622 to close the defined benefit pension plan to all employees' hired on or after June 1, 2019. Those non-uniformed employees' hired on or after June 1, 2019 will be enrolled in the township's newly established defined contribution plan. 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, 1967. Active members are required to contribute 3.5 percent of compensation to the plan; however, member contributions were eliminated during the audit period. As of December 31, 2018, the plan had 36 active members, 2 terminated members eligible for vested benefits in the future, and 27 retirees receiving pension benefits.

BACKGROUND – (Continued)

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

Eligibility Requirements:

Normal Retirement	Available upon attainment of age 60.
Early Retirement	A voluntary early retirement is available after 24 years of service. An involuntary early retirement is available after 8 years of service.
Vesting	100% vesting available after 5 years of service.

Retirement Benefit:

Benefit equals 3.0% times credited service times Final Average Salary (FAS), not to exceed 70% of FAS. FAS based upon final 3 years annualized salary.

Survivor Benefit:

If eligible to retire at the time of death, beneficiary receives present value of accrued benefit. At retirement, member may select a survivor benefit.

Disability Benefit:

Service Related	A 50% disability benefit is provided to a member who is unable to perform gainful employment regardless of age or service, offset by available Workers' Compensation benefits.
Non-service Related	A 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

SALISBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

Condition: The township adopted the mandatory provisions of Act 205 regarding the procurement of professional services contracts relative to its pension plans with the adoption of Resolution No. 08-2013-1443. During 2019, the township entered into an agreement with a provider for investment services for its newly established non-uniformed defined contribution pension plan; however, there was no evidence provided to support that the contracting for these professional services was conducted and awarded in accordance with provisions of Act 205 and/or Resolution No. 08-2013-1443.

Criteria: Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

Review. Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

Conflict of interest. The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

Public information. Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

SALISBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Continued

Notice and summary. The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Furthermore, Resolution No 08-2013-1443, adopted by the township to adhere to Act 44 of 2009 which amended Act 205, contains similar provisions as aforementioned above.

Cause: Plan officials, along with their labor council, did not feel compliance with provisions of Resolution No. 08-2013-1443 and Act 205 relative to professional services contracts was applicable in the selection of an investment platform for their new plan.

Effect: The Township's failure to comply in all respects with the provisions stipulated in Act 205, as adopted in Resolution No. 08-2013-1443 for the procurement of professional investment services for the township's pension plan, denotes a general lack of overall transparency of the actions taken by plan officials relative to the contracting for investment services for the township's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 provisions, as adopted in Resolution 08-2013-1443, relating to the procurement of professional services and ensure compliance with these provisions which should include the maintenance of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for its pension plan.

SALISBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Continued

Management Response: Municipal officials disagreed with the recommendation. The township responded as follows. “While we acknowledge the importance of adherence to Act 44, as evidenced by the Township’s adoption of Resolution No. 08-2103-1443, we, along with our labor council, do not feel Act 44 provisions are applicable to our use of Charles Schwab (“Schwab”) relative to our non-uniformed Defined Contribution Pension Plan. Our arrangement with Schwab does not provide for professional services which would be considered investing services or consulting services. Since Schwab does not function as an investment advisor, neither the Township nor the plan participants receive any professional advice or recommendations whatsoever from Schwab. Neither the township nor the plan participants experience fees associated with any account for investments. Schwab merely holds our monies and securities and executes transactions as directed by the Township on behalf of plan participants without any input from Schwab or compensation from the Township or pension plan participants. Because the Township and the pension plan participants do not seek to utilize any expertise from Schwab for which one would need to evaluate one who is “most qualified” and because there are no costs or commission associated with the account to consider whatsoever, we do not feel that Act 44 procedures are applicable to this particular arrangement.”

Auditor’s Conclusion: Our interpretation of the intent of Act 44 revisions to Act 205 differs from the municipal officials’ interpretation, and the finding remains as stated. Compliance will be evaluated during subsequent plan engagements.

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

The supplementary information contained on Pages 6 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, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 309,455	\$ 326,459	\$ 317,511	\$ 375,947	\$ 410,952
Interest	737,497	768,776	806,791	842,578	867,205
Difference between expected and actual experience	142,072	(1,232)	473,976	-	1,168,669
Changes of assumptions	-	208,095	416,583	-	-
Transfers	-	-	54,954	-	-
Benefit payments, including refunds of member contributions	(687,496)	(583,305)	(678,566)	(764,071)	(805,344)
Net Change in Total Pension Liability	501,528	718,793	1,391,249	454,454	1,641,482
Total Pension Liability – Beginning	13,438,735	13,940,263	14,659,056	16,050,305	16,504,759
Total Pension Liability - Ending (a)	<u>\$ 13,940,263</u>	<u>\$ 14,659,056</u>	<u>\$ 16,050,305</u>	<u>\$ 16,504,759</u>	<u>\$ 18,146,241</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 264,342	\$ 391,296	\$ 407,248	\$ 486,159	\$ 505,948
Contributions - PMRS assessment	-	1,400	1,460	1,500	1,480
PMRS investment income	696,043	690,377	696,996	686,956	717,729
Market value investment income	(49,673)	(610,438)	(24,004)	1,515,206	(1,173,093)
Transfers	-	-	54,954	-	-
Benefit payments, including refunds of member contributions	(687,496)	(583,305)	(678,566)	(764,071)	(805,344)
PMRS administrative expense	(1,240)	(1,400)	(1,380)	(1,420)	(1,460)
Additional administrative expense	(26,693)	(28,780)	(34,147)	(31,592)	(32,029)
Net Change in Plan Fiduciary Net Position	195,283	(140,850)	422,561	1,892,738	(786,769)
Plan Fiduciary Net Position – Beginning	12,357,188	12,552,471	12,411,621	12,834,182	14,726,920
Plan Fiduciary Net Position - Ending (b)	<u>\$ 12,552,471</u>	<u>\$ 12,411,621</u>	<u>\$ 12,834,182</u>	<u>\$ 14,726,920</u>	<u>\$ 13,940,151</u>
Net Pension Liability - Ending (a-b)	<u>\$ 1,387,792</u>	<u>\$ 2,247,435</u>	<u>\$ 3,216,123</u>	<u>\$ 1,777,839</u>	<u>\$ 4,206,090</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.04%	84.67%	79.96%	89.23%	76.82%
Estimated Covered Employee Payroll	\$ 1,966,279	\$ 2,111,508	\$ 2,220,762	\$ 2,364,361	\$ 2,584,504
Net Pension Liability as a Percentage of Covered Employee Payroll	70.58%	106.44%	144.82%	75.19%	162.74%

SALISBURY 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, 2014 and 2015, calculated using the discount rate of 5.50%, 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 (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net Pension Liability - 12/31/14	\$ 2,913,189	\$ 1,387,792	\$ 63,779
Net Pension Liability - 12/31/15	\$ 3,874,211	\$ 2,247,435	\$ 842,442

In addition, the following presents the net pension liability of the township as of December 31, 2016, 2017 and 2018, calculated using the discount rate of 5.25%, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 5,050,736	\$ 3,216,123	\$ 1,639,974
Net Pension Liability - 12/31/17	\$ 3,664,398	\$ 1,777,839	\$ 157,062
Net Pension Liability - 12/31/18	\$ 6,276,150	\$ 4,206,090	\$ 2,433,590

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

SCHEDULE OF CONTRIBUTIONS

<u>Year Ended December 31</u>	<u>Actuarially Determined Contribution</u>	<u>Actual Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 264,322	\$ 264,342	\$ (20)	\$1,966,279	13.44%
2015	392,556	392,696	(140)	2,111,508	18.60%
2016	408,628	408,708	(80)	2,220,762	18.40%
2017	487,579	487,659	(80)	2,364,361	20.63%
2018	507,408	507,428	(20)	2,584,504	19.63%

SALISBURY 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	\$ 12,257,616	\$ 12,889,668	\$ 632,052	95.1%
01-01-15	12,858,314	13,940,263	1,081,949	92.2%
01-01-17	13,863,056	16,050,305	2,187,249	86.4%

SALISBURY 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.

SALISBURY 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
Remaining amortization period	9 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%)
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

SALISBURY TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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