

# LIMITED PROCEDURES ENGAGEMENT

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## Upper Nazareth Township Police Pension Plan Northampton County, Pennsylvania For the Period January 1, 2014 to December 31, 2017

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February 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Upper Nazareth Township  
Northampton County  
Nazareth, PA 18064

We conducted a Limited Procedures Engagement (LPE) of the Upper Nazareth Township Police Pension Plan for the period January 1, 2014 to December 31, 2017 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period.
- 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.
- Whether retirement benefits calculated for plan members who retired during the engagement 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 pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.

- 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.
- Whether the terms of the plan's unallocated insurance contract, including ownership and any restrictions, were in compliance with plan provisions, investment policies, and state regulations by comparing the terms of the contract with the plan's provisions, investment policies, and state regulations.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Upper Nazareth Township Police Pension Plan was not being 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 Overpayment Of State Aid

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The township should continue to maintain documentation related to this pension plan.

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 Upper Nazareth Township and, where appropriate, their responses have been included in this report. We would like to thank township officials for the cooperation extended to us during the conduct of this LPE.

January 29, 2019



EUGENE A. DEPASQUALE  
Auditor General

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UPPER NAZARETH TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

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

Condition: The township certified an ineligible police officer (2 units) and overstated payroll by \$80,684 on the Certification Form AG 385 filed in 2016. The data contained on this certification form is based on prior calendar year information.

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

Furthermore, Act 205 at Section 402(e)(2) states, in part:

For the purpose of computing and reporting the applicable number of units, a DROP participant shall not be reported to the Auditor General as an active employee.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified. In addition, plan officials were unaware that DROP participants and their compensation are not eligible for certification.

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 pension costs, the incorrect certification of pension data affected the township’s state aid allocation, as identified below:

| Year | Normal<br>Cost | Payroll<br>Overstated | State Aid<br>Overpayment |
|------|----------------|-----------------------|--------------------------|
| 2016 | 9.494%         | \$ 80,684             | \$ 7,660                 |

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the police pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMO will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of \$7,660, plus interest, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

UPPER NAZARETH TOWNSHIP POLICE PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

We also 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.

In addition, if the reimbursement to the Commonwealth is made from police pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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

Auditor's Conclusion: Compliance will be evaluated during our next plan engagement.

UPPER NAZARETH TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 3 and 4 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   | \$ 50,595                  | \$ 56,325                  |
| Interest   | 75,908                     | 82,413                     |
| Difference between expected and actual experience                          | -                          | (23,834)                   |
| Changes of assumptions   | -                          | 48,075                     |
| Benefit payments, including refunds of member contributions                | (8,655)                    | (4,327)                    |
| Net Change in Total Pension Liability                                      | <u>117,848</u>             | <u>158,652</u>             |
| Total Pension Liability - Beginning  | <u>902,583</u>             | <u>1,020,431</u>           |
| Total Pension Liability - Ending (a)                                       | <u><u>\$ 1,020,431</u></u> | <u><u>\$ 1,179,083</u></u> |
| Plan Fiduciary Net Position  |                            |                            |
| Contributions - State aid  | \$ 55,071                  | \$ 59,031                  |
| Contributions - Employer   | 3,323                      | -                          |
| Net investment income  | 27,704                     | (32,035)                   |
| Benefit payments, including refunds of member contributions                | (8,655)                    | (4,327)                    |
| Other  | 320                        | -                          |
| Net Change in Plan Fiduciary Net Position                                  | <u>77,763</u>              | <u>22,669</u>              |
| Plan Fiduciary Net Position - Beginning                                    | <u>911,720</u>             | <u>989,483</u>             |
| Plan Fiduciary Net Position - Ending (b)                                   | <u><u>\$ 989,483</u></u>   | <u><u>\$ 1,012,152</u></u> |
| Net Pension Liability - Ending (a-b)                                       | <u><u>\$ 30,948</u></u>    | <u><u>\$ 166,931</u></u>   |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 97.0%                      | 85.8%                      |
| Estimated Covered Employee Payroll   | \$ 586,154                 | \$ 586,154                 |
| Net Pension Liability as a Percentage of Covered Employee Payroll          | 5.3%                       | 28.5%                      |

*The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.*

UPPER NAZARETH 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, 2015, 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<br>(6.5%) | Current<br>Discount Rate<br>(7.5%) | 1% Increase<br>(8.5%) |
|-----------------------|-----------------------|------------------------------------|-----------------------|
| Net Pension Liability | \$ 332,551            | \$ 166,931                         | \$ 29,057             |

*The Department typically presents this data for the past six consecutive fiscal years. Since six years of sensitivity analysis data was not yet available, this will be done prospectively.*



UPPER NAZARETH 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<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) |
| 01-01-13                       | \$ 763,581                             | \$ 795,873   | \$ 32,292  | 95.9%                      |
| 01-01-15                       | 989,483                                | 1,044,672  | 55,189   | 94.7%                      |
| 01-01-17                       | 1,126,774                              | 1,448,121  | 321,347  | 77.8%                      |

UPPER NAZARETH 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.

UPPER NAZARETH 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 |
|------------------------|------------------------------|------------------------|
| 2012                   | \$ 42,163                    | 114.9%                 |
| 2013                   | 56,652                       | 100.0%                 |
| 2014                   | 58,394                       | 100.5%                 |
| 2015                   | 56,960                       | 103.6%                 |
| 2016                   | 59,093                       | 107.4%                 |
| 2017                   | 69,058                       | 100.0%                 |

UPPER NAZARETH 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 | 15 years         |
| Asset valuation method        | Fair value       |
| Actuarial assumptions:        |                  |
| Investment rate of return     | 7.5%             |
| Projected salary increases    | 4.5%             |

UPPER NAZARETH 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. Michael Rinker**  
Chairman, Board of Township Supervisors

**Ms. Betty Parrish**  
Treasurer

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