

# COMPLIANCE AUDIT

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

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September 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  
Upper Providence Township  
Montgomery County  
Oaks, PA 19456

We have conducted a compliance audit of the Upper Providence 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 conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our 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 seven of the 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 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 the two plan members who elected to vest during the current audit period 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.

Upper Providence 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.

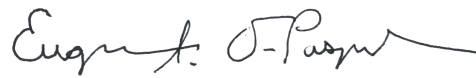
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Upper Providence Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and 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 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 Upper Providence Township Non-Uniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

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 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.

August 27, 2019



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 Upper Providence 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 Upper Providence Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2016-46A. The plan was established January 1, 1969 and is maintained for employees hired prior to January 1, 2016. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 22 active members, 5 terminated members eligible for vested benefits in the future, and 16 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 62
Early Retirement	Age 55 and 10 years of service.
Vesting	10% per year of service up to 100% after 10 years of service.

### Retirement Benefit:

A monthly benefit equal to 2% of average monthly compensation (total pay averaged over the highest consecutive 36 months of employment), multiplied by years of service, up to a maximum benefit of 50%. For those hired before May 2, 2005, the benefit shall be no less than 1.5% of average monthly compensation multiplied by years of service. For participants hired prior to January 1, 1999, the minimum benefit is 25% of average monthly compensation.

### Survivor Benefit:

Year of service 1 to 10: A lump sum benefit paid to the surviving spouse equal to the actuarial equivalent present value of the vested benefit as of the date of death.

After 10 years of service, but before retirement: A monthly benefit paid to the surviving spouse equal to the pension the participant would have been eligible for at date of death under the 100% joint and survivor option. Benefit will be payable at the participant's normal retirement date, or early retirement date subject to the early retirement reduction.

After Retirement Eligibility: Optional annuity forms chosen at retirement.

### Service Related Disability Benefit:

For disablement and qualification for social security disability benefits, a monthly benefit equal to the normal retirement benefit will be payable following 6 months of disablement for duration of disability prior to normal retirement.

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

The supplementary information contained on Pages 3 through 6 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	\$ 231,604	\$ 210,528
Interest	451,078	484,522
Difference between expected and actual experience	-	(77,520)
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(115,673)	(130,184)
Net Change in Total Pension Liability	<u>567,009</u>	<u>487,346</u>
Total Pension Liability – Beginning	<u>6,046,994</u>	<u>6,614,003</u>
Total Pension Liability – Ending (a)	<u><u>\$ 6,614,003</u></u>	<u><u>\$ 7,101,349</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 503,231	\$ 578,071
Net investment income	283,402	(46,128)
Benefit payments, including refunds of member contributions	(115,673)	(130,184)
Administrative expense	(29,410)	(39,303)
Net Change in Plan Fiduciary Net Position	<u>641,550</u>	<u>362,456</u>
Plan Fiduciary Net Position – Beginning	<u>4,597,364</u>	<u>5,238,914</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 5,238,914</u></u>	<u><u>\$ 5,601,370</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,375,089</u></u>	<u><u>\$ 1,499,979</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.2%	78.9%
Estimated Covered Employee Payroll	\$ 1,968,721	\$ 2,305,168
Net Pension Liability as a Percentage of Covered Employee Payroll	69.8%	65.1%



UPPER PROVIDENCE 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 AND 2017

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 208,048	\$ 231,448
Interest	519,184	555,741
Difference between expected and actual experience	-	(28,083)
Changes of assumptions	-	244,506
Benefit payments, including refunds of member contributions	(301,754)	(218,592)
Net Change in Total Pension Liability	<u>425,478</u>	<u>785,020</u>
Total Pension Liability – Beginning*	<u>7,101,349</u>	<u>7,324,900</u>
Total Pension Liability – Ending (a)	<u>\$ 7,526,827</u>	<u>\$ 8,109,920</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 518,487	\$ 462,171
Net investment income	288,734	972,722
Benefit payments, including refunds of member contributions	(301,754)	(218,592)
Administrative expense	(33,832)	(24,753)
Net Change in Plan Fiduciary Net Position	<u>471,635</u>	<u>1,191,548</u>
Plan Fiduciary Net Position – Beginning *	<u>5,601,370</u>	<u>5,912,882</u>
Plan Fiduciary Net Position – Ending (b)	<u>\$ 6,073,005</u>	<u>\$ 7,104,430</u>
Net Pension Liability – Ending (a-b)	<u>\$ 1,453,822</u>	<u>\$ 1,005,490</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.7%	87.6%
Estimated Covered Employee Payroll	\$ 2,145,038	\$ 1,466,467
Net Pension Liability as a Percentage of Covered Employee Payroll	67.8%	68.6%

\* The January 1, 2017 beginning balances were adjusted to reflect amounts that were transferred into the firefighters' pension plan in 2017.

UPPER PROVIDENCE 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, and 2017, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/15	\$ 2,391,059	\$ 1,499,979	\$ 750,008
Net Pension Liability – 12/31/16	\$ 2,389,304	\$ 1,453,822	\$ 666,099
Net Pension Liability – 12/31/17	\$ 2,030,232	\$ 1,005,490	\$ 143,914

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	\$ 503,231	\$ 503,231	\$ -	\$1,968,721	25.56%
2015	478,071	578,071	(100,000)	2,305,168	25.08%
2016	478,988	518,487	(39,499)	2,145,038	24.17%
2017	432,169	462,171	(30,002)	1,466,467	31.52%
2018	383,181	508,000	(124,819)	*	*

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

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

SCHEDULE OF INVESTMENT RETURNS

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

2017	16.09%
2016	5.20%
2015	-.82%
2014	6.14%

UPPER 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, 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	\$ 3,750,508	\$ 5,530,214	\$ 1,779,706	67.8%
01-01-15	5,238,914	6,536,483	1,297,569	80.1%
01-01-17	5,912,882	7,541,323	1,628,441	78.4%

UPPER 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.

UPPER PROVIDENCE 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	8 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.5%
Cost-of-living adjustments	2.75%

UPPER PROVIDENCE TOWNSHIP NON-UNIFORMED PENSION PLAN  
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