

# COMPLIANCE AUDIT

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## Whitpain Township Non-Uniformed Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2015 to December 31, 2017

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August 2018



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
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Board of Township Supervisors  
Whitpain Township  
Montgomery County  
Blue Bell, PA 19422

We have conducted a compliance audit of the Whitpain Township Non-Uniformed Pension Plan for the period January 1, 2015 to December 31, 2017. 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 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 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.

Whitpain 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 Whitpain 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 Whitpain 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 Whitpain Township and, where appropriate, their responses have been included in the report.

August 10, 2018

  
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 Whitpain 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 Whitpain Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan for the township's non-uniformed employees hired prior to January 1, 2010, locally controlled by the provisions of Ordinance No. 311. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established February 15, 1982. Active members are required to contribute 3 percent of compensation to the plan. As of December 31, 2017, the plan had 48 active members, 12 terminated members eligible for vested benefits in the future, and 18 retirees receiving pension benefits from the plan.

## **BACKGROUND – (Continued)**

As of December 31, 2017, selected plan benefit provisions are as follows:

### Eligibility Requirements:

Normal Retirement	Age 62 and 20 years of service, or age 65 if earlier.
Early Retirement	Age 55 and 10 years of service.
Vesting	Vesting schedule is 5% after 1 year, 10% after 2 years, 20% after 3 years, 40% after 4 years, 60% after 5 years, 80% after 6 years, and 100% after 7 or more years.

### Retirement Benefit:

Benefit equals 50% average monthly pay based on high 3 years of last 10 years, prorated based on number of years and completed months of service if less than 20 years.

### 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.

### Disability Benefit:

None

WHITPAIN 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 (1 unit) on the Certification Form AG 385 filed in 2017. 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 of \$4,588 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2017	1	\$ 4,588	\$ 4,588

Although the township will be reimbursed for the underpayment of state aid due to the township’s certification error, the full amount of the 2017 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.



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

The supplementary information contained on Pages 4 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	\$ 318,807	\$ 296,239
Interest	882,405	939,838
Difference between expected and actual experience	-	(94,696)
Benefit payments, including refunds of member contributions	(326,618)	(309,748)
Net Change in Total Pension Liability	<u>874,594</u>	<u>831,633</u>
Total Pension Liability – Beginning	11,609,907	12,484,501
Total Pension Liability - Ending (a)	<u><u>\$ 12,484,501</u></u>	<u><u>\$ 13,316,134</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 485,243	\$ 554,877
Contributions – member	88,558	92,962
Net investment income	517,606	(60,774)
Benefit payments, including refunds of member contributions	(326,618)	(309,748)
Administrative expense	(14,367)	(12,180)
Net Change in Plan Fiduciary Net Position	<u>750,422</u>	<u>265,137</u>
Plan Fiduciary Net Position – Beginning	10,540,136	11,290,558
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 11,290,558</u></u>	<u><u>\$ 11,555,695</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 1,193,943</u></u>	<u><u>\$ 1,760,439</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.44%	86.78%
Estimated Covered Employee Payroll	\$ 3,342,885	\$ 3,316,530
Net Pension Liability as a Percentage of Covered Employee Payroll	35.72%	53.08%

WHITPAIN 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	\$ 309,570	\$ 301,803
Interest	1,009,967	1,100,459
Difference between expected and actual experience	-	(442,032)
Changes of assumptions	-	700,437
Benefit payments, including refunds of member contributions	(318,944)	(408,292)
Net Change in Total Pension Liability	<u>1,000,593</u>	<u>1,252,375</u>
Total Pension Liability - Beginning	13,316,134	14,316,727
Total Pension Liability - Ending (a)	<u>\$ 14,316,727</u>	<u>\$ 15,569,102</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 527,910	\$ 534,010
Contributions - member	91,675	84,230
Net investment income	656,146	1,639,515
Benefit payments, including refunds of member contributions	(318,944)	(408,292)
Administrative expense	(4,390)	(11,170)
Net Change in Plan Fiduciary Net Position	<u>952,397</u>	<u>1,838,293</u>
Plan Fiduciary Net Position - Beginning	11,555,695	12,508,092
Plan Fiduciary Net Position - Ending (b)	<u>\$ 12,508,092</u>	<u>\$ 14,346,385</u>
Net Pension Liability - Ending (a-b)	<u>\$ 1,808,635</u>	<u>\$ 1,222,717</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.37%	92.15%
Estimated Covered Employee Payroll	\$ 3,400,345	\$ 3,427,878
Net Pension Liability as a Percentage of Covered Employee Payroll	53.19%	35.67%

WHITPAIN 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, 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	\$ 2,568,989	\$ 1,193,943	\$ 9,939
Net Pension Liability - 12/31/15	\$ 3,189,011	\$ 1,760,439	\$ 530,285
Net Pension Liability - 12/31/16	\$ 3,278,688	\$ 1,808,635	\$ 542,303
Net Pension Liability - 12/31/17	\$ 2,846,374	\$ 1,222,717	\$ (171,496)

SCHEDULE OF INVESTMENT RETURNS

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

2017	11.50%
2016	5.60%
2015	(0.39%)
2014	4.24%

WHITPAIN 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	\$ 9,313,174	\$ 10,893,327	\$ 1,580,153	85.5%
01-01-15	11,290,558	12,389,805	1,099,247	91.1%
01-01-17	12,508,092	14,575,132	2,067,040	85.8%

WHITPAIN 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.

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

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2012	\$ 506,304	100.0%
2013	480,794	102.7%
2014	485,243	100.0%
2015	554,877	100.0%
2016	527,910	100.0%
2017	534,010	100.0%

WHITPAIN 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	7 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4.5%
Cost-of-living adjustments	None assumed

WHITPAIN 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. Adam Zucker**  
Chairman, Board of Township Supervisors

**Mr. Fred Connor**  
Vice-Chairman, Board of Township Supervisors

**Mr. Anthony Greco**  
Secretary

**Mr. Ken Wollman**  
Treasurer

**Ms. Michele Minnick**  
Assistant Secretary

**Mr. Roman Pronczak**  
Township Manager

**Ms. Christine Bauman**  
Finance Director

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