

# COMPLIANCE AUDIT

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## Bristol Township Non-Uniformed Pension Plan Bucks County, Pennsylvania For the Period January 1, 2011 to December 31, 2014

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July 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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Township Council  
Bristol Township  
Bucks County  
Bristol, PA 19007

We have conducted a compliance audit of the Bristol Township Non-Uniformed Pension Plan for the period January 1, 2011 to December 31, 2014. 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.
- × 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 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 also tested individual employee contributions for 17 of 76 active employees employed during the audit period amounting to \$30,678 of the total employee contributions of \$165,636 for 2011, \$36,897 of the total employee contributions of \$166,158 for 2012, \$32,885 of the total employee contributions of \$124,754 for 2013 and \$28,388 of the total employee contributions of \$101,949 for 2014, made during the audit period.
- × We determined whether retirement benefits calculated for 18 of 31 of the plan members who terminated employment and/or retired and elected a lump-sum form of pension benefit 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 comparing the distributed amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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 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 Bristol 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 Bristol 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 Bristol 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 findings further discussed later in this report:

- Finding No. 1 – Allocation Of State Aid In Excess Of Entitlement
- Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

The contents of this report were discussed with officials of Bristol Township and, where appropriate, their responses have been included in the report.

June 17, 2015



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 Bristol Township Non-Uniformed Pension Plan is also governed by implementing regulations adopted by the 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 Bristol Township Non-Uniformed Pension Plan is a single-employer cash balance pension plan locally controlled by the provisions of Ordinance No. 2011-02, adopted pursuant to Act 15. The plan was established January 1, 2011. Active members are required to contribute 1 percent of compensation to the plan, but may optionally contribute up to, but no more than 9 percent of their compensation to the plan. The municipality is required to contribute 1 percent of compensation for each member, plus a percentage equal to the contributions of the member, up to a maximum municipal contribution of 5% of compensation. As of December 31, 2014, the plan had 36 active members, 6 terminated members eligible for vested benefits in the future, and 20 retirees receiving benefits funded through annuities purchased with plan assets.

BRISTOL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Allocation Of State Aid In Excess Of Entitlement**

Condition: In 2011, the township allocated state aid to the non-uniformed pension plan in excess of the plan’s defined contribution pension costs under Act 205, as illustrated below:

State aid allocation	\$ 63,808
Less: Actual municipal pension costs	<u>-</u>
Excess state aid	<u>\$ 63,808</u>

Criteria: Section 402(f)(2) of Act 205 states:

No municipality shall be entitled to receive an allocation of general municipal pension system state aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plan for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Forfeitures were available amounting to \$170,406 but were not used to fund the municipality’s obligation to the pension plan. Instead, plan officials allocated state aid and utilized general fund resources to pay the pension obligation for 2011. Plan officials were unaware of the need to annually reconcile the amount of state aid, available forfeitures and municipal contributions allocated to the pension plan with the plan’s actual defined contribution pension costs.

Effect: It is this department’s opinion that, since the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years. However, the township does have the option to allocate the excess state aid to its defined benefit pension plan.

Recommendation: We recommend that municipal officials allocate the \$63,808 of excess state aid to their defined benefit pension plan.

In addition, we recommend that, in the future, plan officials reconcile the amount of state aid allocated to the non-uniformed pension plan, municipal contributions made to the pension plan and available forfeitures of the plan with the pension plan’s defined contribution pension costs.

BRISTOL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management’s Response: Municipal officials indicated that both findings are a result of the township having forfeited contributions at PMRS that can be used to fund the non-uniformed pension plan. On a prospective basis, the non-uniformed pension plan will be funded by depleting the forfeited funds until exhausted. On a retroactive basis, the township will make arrangements to transfer the amount funded through state aid to the uniform pension plan per recommendation of the auditor.

Auditor’s Conclusion: Compliance will be evaluated during out next audit of the plan.

**Finding No. 2 – Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan**

Condition: The township made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Actual municipal pension costs	\$ 168,352	\$ 147,020	\$ 112,574	\$ 92,843
Forfeitures available	<u>(170,406)</u>	<u>(51,531)</u>	<u>(8,286)</u>	<u>(78,472)</u>
Municipal contributions required to fund plan	<u>\$ (2,054)</u>	<u>\$ 95,489</u>	<u>\$ 104,288</u>	<u>\$ 14,371</u>
Actual municipal contributions Made	\$ 104,544	\$ 147,020	\$ 112,574	\$ 92,843
Municipal contributions required to fund plan	<u>-</u>	<u>(95,489)</u>	<u>(104,288)</u>	<u>(14,371)</u>
Excess municipal contributions	<u>\$ 104,544</u>	<u>\$ 51,531</u>	<u>\$ 8,286</u>	<u>\$ 78,472</u>

Criteria: The township is required to contribute 1 percent of each member’s compensation plus a percentage equal to the contributions of the member, up to a maximum municipal contribution of 5% of the member’s compensation. Since the plan’s governing document is silent on the application of plan forfeitures, the forfeitures should be used to offset municipal contributions.



BRISTOL TOWNSHIP NON-UNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 - (Continued)**

Cause: The township was unaware that available forfeitures should be used to offset municipal contributions due to the plan.

Effect: It is the opinion of this department that the township's failure to withdraw excess municipal contributions made in prior years does not preclude the township from withdrawing the municipal contributions maintained in the unallocated reserve fund at this time.

Recommendation: We recommend that the township transfer the excess municipal contributions previously made which are currently held in the plan's unallocated reserve account to the township's general fund. In addition, any interest income earned on the excess municipal contributions held in the reserve fund should also be transferred to the general fund.

We also recommend that any remaining employee forfeitures in the unallocated reserve fund be applied to offset future municipal contributions until the fund is totally liquidated.

Furthermore, we recommend that municipal officials amend the plan's governing document to provide for the proper disposition of employee forfeitures.

Management's Response: As previously disclosed above, officials indicated that both findings are a result of the township having forfeited contributions at PMRS that can be used to fund the non-uniformed pension plan. On a prospective basis, the non-uniformed pension plan will be funded by depleting the forfeited funds until exhausted. On a retroactive basis, the township will make arrangements to transfer the amount funded through state aid to the uniform pension plan per recommendation of the auditor.

Auditor's Conclusion: Compliance will be evaluated during out next audit of the plan.

BRISTOL TOWNSHIP NON-UNIFORMED PENSION PLAN  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2009	\$ 139,140	None
2010	None	\$ 143,658
2011	\$ 63,808	104,544
2012	None	147,020
2013	None	112,574
2014	None	92,843

BRISTOL 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

Bristol Township Non-Uniformed Pension Plan  
Bucks County  
2501 Bath Road  
Bristol, PA 19007

Mr. Craig Bowen	Council President
Mr. William McCauley	Managing Director
Mr. Francis Phillips	Finance Officer
Ms. Kristine M. Cline	Pennsylvania Municipal Retirement System

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).