

# COMPLIANCE AUDIT

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## Bensalem Township Non-Uniformed Pension Plan Bucks 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**

The Honorable Mayor and Township Council  
Bensalem Township  
Bucks County  
Bensalem, PA 19020

We have conducted a compliance audit of the Bensalem 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 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 10 of 25 of the plan members who retired during the current audit period, and through the completion of our fieldwork procedures,<sup>1</sup> 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 both of the plan members who elected to vest 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 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, 2015 and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 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.

Bensalem 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 Bensalem 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

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<sup>1</sup> We selected plan members randomly from the population of plan members who retired during the current audit period and prior to completion of our fieldwork procedures in order to obtain a representative selection for the purpose of our testing to achieve the audit objective. While representative selection is a required factor of audit sampling methodologies, audit sampling methodology was not applied to achieve this test objective; accordingly, the results of this audit procedure are not, and should not be, projected to the population.


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 Bensalem 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 Bensalem 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 21, 2019

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 Bensalem 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 Bensalem Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan for non-uniformed employees hired prior to January 1, 2009, locally controlled by the provisions of Ordinance No. 2006-14. 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, 1971. Non-management active members are required to contribute 5 percent of wages to the plan, and management active members are required to contribute 3 percent of wages to the plan. As of December 31, 2018, the plan had 50 active members, 1 terminated members eligible for vested benefits in the future, and 40 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	Non-Management and Management Employees who were not 100% vested on November 25, 2002: Age 60 All Other Management Employees: Age 50
Early Retirement	Eligible with 20 years of service if termination is voluntary, 8 years if termination is involuntary.
Vesting	Non-Management Employees: 100% vesting available after 10 years of service. Management Employees: 50% vesting available after 4 years of service, 100% vesting available after 5 years of service.

### Retirement Benefit:

Benefit equals 2.5% (3.5% for management employees vested as of November 25, 2002) of average compensation multiplied by years of service. Average compensation is averaged over the last 60 months of employment (last 36 months of employment for management employees). Maximum benefit is 100% of average monthly compensation.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	Normal form of benefit payment is a life annuity.

### Service Related Disability Benefit:

Benefit equals 50% of the member's average applicable compensation. May not exceed 100% of annual compensation when combined with Workers Compensation and Social Security disability.

### Non-Service Related Disability Benefit

After 10 years of service, benefit equals 30% of the member's average applicable compensation. Benefit may not exceed 100% of annual compensation when combined with Workers Compensation and Social Security disability.

BENSALEM 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, 2015, AND 2016

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Pension Liability			
Service cost	\$ 665,300	\$ 556,481	\$ 584,305
Interest	1,366,664	1,457,762	1,524,353
Difference between expected and actual experience	-	(279,340)	-
Changes of assumptions	-	237,345	-
Benefit payments, including refunds of member contributions	(525,878)	(807,141)	(1,501,234)
Net Change in Total Pension Liability	1,506,086	1,165,107	607,424
Total Pension Liability – Beginning	17,819,825	19,325,911	20,491,018
Total Pension Liability – Ending (a)	<u>\$19,325,911</u>	<u>\$20,491,018</u>	<u>\$21,098,442</u>
Plan Fiduciary Net Position			
Contributions – employer	\$ 905,234	\$ 897,482	\$ 486,658
Contributions – state aid	-	-	373,496
Contributions – member	189,392	181,063	166,133
Net investment income	941,651	126,350	1,057,890
Benefit payments, including refunds of member contributions	(525,878)	(807,141)	(1,501,234)
Net Change in Plan Fiduciary Net Position	1,510,399	397,754	582,943
Plan Fiduciary Net Position – Beginning	12,956,640	14,467,039	14,864,793
Plan Fiduciary Net Position – Ending (b)	<u>\$14,467,039</u>	<u>\$14,864,793</u>	<u>\$15,447,736</u>
Net Pension Liability – Ending (a-b)	<u>\$ 4,858,872</u>	<u>\$ 5,626,225</u>	<u>\$ 5,650,706</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.9%	72.5%	73.2%
Estimated Covered Employee Payroll	\$ 4,679,320	\$ 4,586,758	\$ 4,478,150
Net Pension Liability as a Percentage of Covered Employee Payroll	103.8%	122.7%	126.2%



BENSALEM 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, 2017 AND 2018

	<u>2017</u>	<u>2018</u>
Total Pension Liability		
Service cost	\$ 461,710	\$ 484,796
Interest	1,459,261	1,522,155
Difference between expected and actual experience	(1,506,207)	-
Changes of assumptions	32,510	-
Benefit payments, including refunds of member contributions	(1,259,294)	(951,623)
Net Change in Total Pension Liability	(812,020)	1,055,328
Total Pension Liability – Beginning	21,098,442	20,286,422
Total Pension Liability – Ending (a)	<u>\$ 20,286,422</u>	<u>\$ 21,341,750</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 442,051	\$ 309,386
Contributions – state aid	435,884	430,964
Contributions – member	161,205	151,469
Net investment income	2,611,388	(1,022,354)
Benefit payments, including refunds of member contributions	(1,259,294)	(951,623)
Net Change in Plan Fiduciary Net Position	2,391,234	(1,082,158)
Plan Fiduciary Net Position – Beginning	15,447,736	17,838,970
Plan Fiduciary Net Position – Ending (b)	<u>\$ 17,838,970</u>	<u>\$ 16,756,812</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,447,452</u>	<u>\$ 4,584,938</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	87.9%	78.5%
Estimated Covered Employee Payroll	\$ 4,125,594	\$ 3,768,072
Net Pension Liability as a Percentage of Covered Employee Payroll	59.3%	121.7%

BENSALEM 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, 2017 and 2018, calculated using the discount rate of 7.50%, as well as what the Bensalem Township Non-Uniformed Pension Plan 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/14	\$ 6,091,824	\$ 4,858,872	\$ 3,778,828
Net Pension Liability – 12/31/15	\$ 6,891,025	\$ 5,626,225	\$ 4,515,250
Net Pension Liability – 12/31/16	\$ 6,906,710	\$ 5,650,706	\$ 4,554,651
Net Pension Liability – 12/31/17	\$ 3,756,350	\$ 2,447,452	\$ 1,295,497
Net Pension Liability – 12/31/18	\$ 5,878,075	\$ 4,584,938	\$ 3,453,229

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	\$ 905,234	\$ 905,234	\$ -	\$4,679,320	19.35%
2015	897,482	897,482	-	4,566,758	19.65%
2016	860,156	860,156	-	4,478,150	19.21%
2017	877,935	877,935	-	4,125,594	21.28%
2018	740,350	740,350	-	3,768,072	19.65%

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

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.73%)
2017	16.74%
2016	6.58%
2015	0.46%
2014	5.99%

BENSALEM 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	\$ 14,704,910	\$ 17,212,076	\$ 2,507,166	85.4%
01-01-15	17,089,391	19,283,916	2,194,525	88.6%
01-01-17	18,537,283	19,624,745	1,087,462	94.5%

Note: The market values of the plan's assets at 01-01-13, 01-01-15, and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a ceiling of 120 percent of the market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

BENSALEM 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.

BENSALEM 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	3 years
Asset valuation method	Asset smoothing subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

BENSALEM TOWNSHIP NON-UNIFORMED PENSION PLAN  
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