COMPLIANCE AUDIT

Upper Dublin Township Non-Uniformed Employees Pension Plan

Montgomery County, Pennsylvania

For the Period

January 1, 2015 to December 31, 2018

July 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 Commissioners
Upper Dublin Township
Montgomery County
Fort Washington, PA 19034

We have conducted a compliance audit of the Upper Dublin Township Non-Uniformed Employees 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 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 all ten of the plan members 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 benefits 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 plan member who elected to vest during the current audit period represent payments to 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 benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined.

- We determined whether retirement benefits calculated for the plan member who 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 the recipient.

- 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.

Upper Dublin 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 Upper Dublin Township Non-Uniformed Employees 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 Dublin Township Non-Uniformed Employees 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 Overpayment 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. However, we are extremely concerned about the historical trend information contained in the schedule of funding progress included in this report which indicates a continued decline of assets available to satisfy the long-term liabilities of the plan. The plan's funded ratio went from 71.2% as of January 1, 2013, to a ratio of 66.9% as of January 1, 2017, which is the most recent data available. We encourage township officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Upper Dublin 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.

Eugene A. DePasquale

July 9, 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 Dublin Township Non-Uniformed Employees 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 including, but not limited to, the following:

Act 331 - The First Class Township Code, Act of June 24, 1931 (P.L. 1206, No. 331), as amended, 53 P.S. § 55101 et seq.

The Upper Dublin Township Non-Uniformed Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 1690, as amended, adopted pursuant to Act 331. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established May 1, 1968. Active members are required to contribute 1 percent of gross monthly wages to the plan. As of December 31, 2018, the plan had 80 active members, 5 terminated members eligible for vested benefits in the future, and 29 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	First day of month immediately after attaining age 60.
Early Retirement	Age 55 & 10 years of service.
Vesting	0-3 years – 0%, 4 years – 40%, increasing 10% per year to 100% after 10 or more years of service.

Retirement Benefit:

Lifetime monthly pension with 120 months guaranteed of 1.35% of average monthly pay based on last 60 months times years of service up to 30 years.

Survivor Benefit:

A death benefit is payable to a participant's beneficiary in the amount equal to the present value of his accrued benefit.

Disability Benefit:

None

UPPER DUBLIN TOWNSHIP
NON-UNIFORMED EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The township certified ineligible non-uniformed employees (1 unit) and overstated payroll by $113,447 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.

Cause: Plan officials failed to implement adequate internal control procedures to ensure the accuracy of the data certified on the form submitted during 2016.

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

Year	Units Overstated	Unit Value	State Aid Overpayment
2016	1	$ 4,375	$ 4,375

In addition, the township used the overpayment of state aid to pay the minimum municipal obligations (MMO) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMOs will not be fully paid.

Recommendation: We recommend that the total excess state aid, in the amount of $4,375, 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.

We also recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

Finding – (Continued)

In addition, if the reimbursement to the Commonwealth is made from non-uniformed 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. On July 10, 2019, the township returned $5,194 to the Commonwealth representing the state aid overpayment of $4,375 plus applicable interest.

Auditor's Conclusion: Based on the management response, the township has complied with the finding recommendation.

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

The supplementary information contained on Pages 5 through 8 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

	2014	2015
Total Pension Liability		
Service cost	$ 292,409	$ 284,067
Interest	815,664	864,270
Difference between expected and actual experience	-	409,073
Benefit payments, including refunds of member contributions	(1,084,393)	(637,065)
Net Change in Total Pension Liability	23,680	920,345
Total Pension Liability – Beginning	11,125,313	11,148,993
Total Pension Liability – Ending (a)	$ 11,148,993	$ 12,069,338
Plan Fiduciary Net Position		
Contributions – employer	$ 498,923	$ 629,792
Contributions – member	48,045	51,472
Net investment income	426,583	20,823
Benefit payments, including refunds of member contributions	(1,084,393)	(637,065)
Administrative expense	-	(15,350)
Other	(4,450)	-
Net Change in Plan Fiduciary Net Position	(115,292)	49,672
Plan Fiduciary Net Position – Beginning	8,632,155	8,516,863
Plan Fiduciary Net Position – Ending (b)	$ 8,516,863	$ 8,566,535
Net Pension Liability – Ending (a-b)	$ 2,632,130	$ 3,502,803
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.4%	71.0%
Estimated Covered Employee Payroll	$ 4,817,117	$ 5,508,235
Net Pension Liability as a Percentage of Covered Employee Payroll	54.6%	63.6%

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

SCHEDULE OF CHANGES IN THE NET PENSION
LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2017, AND 2018

	2016	2017	2018
Total Pension Liability			
Service cost	$ 296,850	$ 371,862	$ 388,596
Interest	911,300	1,055,866	1,127,528
Difference between expected and actual experience	-	554,402	-
Changes of assumptions	-	546,269	-
Benefit payments, including refunds of member contributions	(431,032)	(481,563)	(496,350)
Net Change in Total Pension Liability	777,118	2,046,836	1,019,774
Total Pension Liability – Beginning	12,069,338	12,846,456	14,893,292
Total Pension Liability – Ending (a)	$ 12,846,456	$ 14,893,292	$ 15,913,066
Plan Fiduciary Net Position			
Contributions – employer	$ 648,691	$ 660,457	$ 1,582,203
Contributions – member	51,766	54,648	58,778
Net investment income	498,837	1,405,232	(644,177)
Benefit payments, including refunds of member contributions	(431,032)	(481,563)	(496,350)
Administrative expense	(9,470)	(15,935)	(9,740)
Net Change in Plan Fiduciary Net Position	758,792	1,622,839	490,714
Plan Fiduciary Net Position – Beginning	8,566,535	9,325,327	10,948,166
Plan Fiduciary Net Position – Ending (b)	$ 9,325,327	$ 10,948,166	$ 11,438,880
Net Pension Liability – Ending (a-b)	$ 3,521,129	$ 3,945,126	$ 4,474,186
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	72.6%	73.5%	71.9%
Estimated Covered Employee Payroll	$ 5,089,310	$ 5,527,106	$ 5,346,903
Net Pension Liability as a Percentage of Covered Employee Payroll	69.2%	71.4%	83.7%

UPPER DUBLIN TOWNSHIP
NON-UNIFORMED EMPLOYEES 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 7.5%, 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	$ 3,847,803	$ 2,632,130	$ 1,577,429
Net Pension Liability – 12/31/15	$ 4,735,072	$ 3,502,803	$ 2,433,360
Net Pension Liability – 12/31/16	$ 4,789,439	$ 3,521,129	$ 2,420,123
Net Pension Liability – 12/31/17	$ 5,483,236	$ 3,945,126	$ 2,619,412
Net Pension Liability – 12/31/18	$ 6,063,575	$ 4,474,186	$ 3,104,635

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

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
2009	$ 272,106	$ 273,295	$ (1,189)	$4,269,075	6.40%
2010	289,820	289,820	-	4,269,075	6.79%
2011	365,909	405,036	(39,127)	4,667,225	8.68%
2012	372,897	372,897	-	4,667,225	7.99%
2013	501,919	501,919	-	4,524,422	11.09%
2014	498,923	498,923	-	4,817,117	10.36%
2015	629,792	629,792	-	5,508,235	11.43%
2016	648,691	648,691	-	5,089,310	12.75%
2017	660,457	660,457	-	5,527,106	12.95%
2018	660,003	1,582,203	(922,200)	5,346,903	29.59%

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.88%)
2017	15.69%
2016	6.24%
2015	(0.76%)
2014	3.68%

UPPER DUBLIN TOWNSHIP
NON-UNIFORMED EMPLOYEES 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	$ 7,527,270	$ 10,572,446	$ 3,045,176	71.2%
01-01-15	8,516,863	11,558,066	3,041,203	73.7%
01-01-17	9,325,327	13,947,127	4,621,800	66.9%

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 DUBLIN TOWNSHIP
NON-UNIFORMED EMPLOYEES 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	12 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

UPPER DUBLIN TOWNSHIP
NON-UNIFORMED EMPLOYEES PENSION PLAN
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This report was initially distributed to the following:

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