

COMPLIANCE AUDIT

Douglass Township Police Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

April 2020



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
Douglass Township
Montgomery County
Gilbertsville, PA 19525

We have conducted a compliance audit of the Douglass Township Police Pension Plan for the period January 1, 2016 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 our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. 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 objectives identified above. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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 that there were no benefit calculations prepared for the years covered by our audit period.
- 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 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 Douglass Township Police 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.

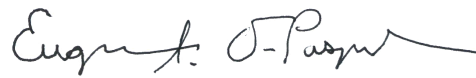
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Douglass Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objectives, 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 objectives.

The results of our procedures indicated that, in all significant respects, the Douglass Township Police 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 Douglass 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.

March 20, 2020

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke 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 Douglass Township Police 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, 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 Douglass Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 2012-3, adopted pursuant to Act 15. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established August 1, 1980. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 12 active members, no terminated members eligible for vested benefits in the future, and 8 retirees receiving pension benefits funded through annuities purchased with plan assets.

BACKGROUND – (Continued)

As of December 31, 2018, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Available upon attainment of age 50 with 12 years of credit service.
Early Retirement	A voluntary early retirement is available after 24 years of service. An involuntary early retirement is available after 8 years of service.
Vesting	100% after 12 years of service.

Retirement Benefit:

Benefits equals 2.0% times FAS but in no event is the basic benefit greater than 50% of FAS. FAS based upon last 3 years annualized salary. There is no Social Security offset. A service increment for credited service in excess of 25 years provided. Maximum service increment is \$100 per month.

Survivor Benefit:

If eligible to retired at time of death, spouse receives 50% of member's benefit.

Disability Benefit:

Service Related	A 50% disability benefit is provided to a member who is unable to perform gainful employment regardless of age or service, offset by available Workers' Compensation benefits.
Non-service Related	A 30% disability benefit is provided to a member who has at least 10 years of service and who is unable to perform gainful employment.

DOUGLASS TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Douglass Township has complied with the prior audit recommendation concerning the following:

- Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

On December 29, 2016, township officials deposited \$41,926 into the police pension plan for the outstanding 2014 minimum municipal obligation due to the plan, with interest.

DOUGLASS TOWNSHIP POLICE 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 plan.

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2015, 2016, 2017, AND 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Total Pension Liability					
Service cost	\$ 179,186	\$ 216,745	\$ 199,305	\$ 222,492	\$ 233,170
Interest	335,676	355,813	371,722	387,328	405,415
Change of benefit terms	83,674	-	-	-	-
Difference between expected and actual experience	-	-	60,252	-	90,259
Changes of assumptions	-	5,270	237,793	-	-
Benefit payments, including refunds of member contributions	(269,300)	(270,630)	(271,650)	(274,555)	(277,457)
Net Change in Total Pension Liability	<u>\$ 329,236</u>	<u>307,198</u>	<u>597,422</u>	<u>335,265</u>	<u>451,387</u>
Total Pension Liability - Beginning	6,056,853	6,386,089	6,693,287	7,290,709	7,625,974
Total Pension Liability - Ending (a)	<u>\$ 6,386,089</u>	<u>\$ 6,693,287</u>	<u>\$ 7,290,709</u>	<u>\$ 7,625,974</u>	<u>\$ 8,077,361</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 140,378	\$ 197,031	\$ 267,091	\$ 245,326	\$ 259,189
Contributions - PMRS assessment	-	382	342	400	400
Net investment income	333,867	(9,206)	537,752	1,147,293	(351,649)
Benefit payments, including refunds of member contributions	(269,300)	(270,630)	(271,650)	(274,555)	(277,457)
PMRS Administrative expense	(380)	(400)	(360)	(400)	(400)
Additional administrative expenses	(12,314)	(13,910)	(17,094)	(16,318)	(16,632)
Net Change in Plan Fiduciary Net Position	<u>192,251</u>	<u>(96,733)</u>	<u>516,081</u>	<u>1,101,746</u>	<u>(386,549)</u>
Plan Fiduciary Net Position - Beginning	5,897,716	6,089,967	5,993,234	6,509,315	7,611,061
Plan Fiduciary Net Position - Ending (b)	<u>\$ 6,089,967</u>	<u>\$ 5,993,234</u>	<u>\$ 6,509,315</u>	<u>\$ 7,611,061</u>	<u>\$ 7,224,512</u>
Net Pension Liability - Ending (a-b)	<u>\$ 296,122</u>	<u>\$ 700,053</u>	<u>\$ 781,394</u>	<u>\$ 14,913</u>	<u>\$ 852,849</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	95.36%	89.54%	89.28%	99.80%	89.44%
Estimated Covered Employee Payroll	\$ 854,652	\$ 1,044,162	\$ 1,150,780	\$ 1,189,283	\$ 1,246,361
Net Pension Liability as a Percentage of Covered Employee Payroll	34.65%	67.04%	67.90%	1.25%	68.43%

DOUGLASS TOWNSHIP POLICE 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 and 2015, calculated using the discount rate of 5.5%, 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 (4.5%)	Current Discount Rate (5.5%)	1% Increase (6.5%)
Net Pension Liability - 12/31/14	\$ 1,204,874	\$ 296,122	\$ (452,876)
Net Pension Liability - 12/31/15	\$ 1,675,649	\$ 700,053	\$ (98,491)

In addition, the following presents the net pension liability of the township as of December 31, 2016, 2017, and 2018, calculated using the discount rate of 6.25%, 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 (4.25%)	Current Discount Rate (5.25%)	1% Increase (6.25%)
Net Pension Liability - 12/31/16	\$ 1,861,712	\$ 781,394	\$ (103,622)
Net Pension Liability - 12/31/17	\$ 1,144,910	\$ 14,913	\$ (910,801)
Net Pension Liability - 12/31/18	\$ 2,043,599	\$ 852,849	\$ (125,727)

DOUGLASS TOWNSHIP POLICE 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
2014	\$ 140,378	\$ 140,378	\$ -	\$ 854,652	16.43%
2015	197,373	197,413	(40)	1,044,162	18.91%
2016	225,507	267,433*	(41,926)	1,150,780	23.24%
2017	245,726	245,726	-	1,189,283	20.66%
2018	259,589	259,589	-	1,246,361	20.83%

* 2016 contribution includes late payment of 2014 minimum municipal obligation.

DOUGLASS TOWNSHIP POLICE 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	\$ 5,607,216	\$ 5,607,033	\$ (183)	100.0%
01-01-15	6,246,975	6,386,089	139,114	97.8%
01-01-17	7,000,677	7,290,709	290,032	96.0%

DOUGLASS TOWNSHIP POLICE 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.

DOUGLASS TOWNSHIP POLICE 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	14 years
Asset valuation method	The Actuarial Value of Assets equals the plan's member, municipal, DROP (if applicable) reserve accounts plus the retiree actuarial liability. This asset smoothing is based on the unique legislative structure of PMRS and the administrative rules adopted by the PMRS Board in conjunction with Pennsylvania Municipal Retirement Law, all of which are subject to comply with the Actuarial Standards of Practice No. 44, Selection and Use of Asset Valuation Methods when defining the actuarial Value of Assets.
Actuarial assumptions:	
Investment rate of return	5.25%, compounded annually, net of investment and administration expenses.
Salary scale	Total rate (including inflation) (e.g. age 25 – 7.05%; age 35 – 4.55%; age 45 – 3.97%; age 55 – 3.44%; age 65 – 2.80%).
Cost-of-living adjustments	2.8% per year, subject to plan limitations.

DOUGLASS TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Joshua Stouch
Chairman, Board of Township Supervisors

Mr. Tom Wynne
Vice-Chairman, Board of Township Supervisors

Mr. Alan Keiser
Township Supervisor

Mr. Peter J. Hiryak
Township Manager

Ms. Cindy O'Donnell
Treasurer

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