

COMPLIANCE AUDIT

Haverford Township Police Pension Plan Delaware County, Pennsylvania For the Period January 1, 2014 to December 31, 2015

November 2016



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
Haverford Township
Delaware County
Havertown PA 19083

We have conducted a compliance audit of the Haverford Township Police Pension Plan for the period January 1, 2014 to December 31, 2015. 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 findings 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 findings 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 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 determined whether retirement benefits calculated for all 7 of the plan members who retired 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 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- We determined whether the January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2014 and 2016, 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 all annual special ad hoc postretirement reimbursements received by the municipality were authorized and appropriately deposited in accordance with Act 147 by tracing information to supporting documentation maintained by plan officials.
- We determined whether provisions of the Deferred Retirement Option Plan (DROP) were in accordance with the provisions of Act 205 by examining provisions stated in the plan's governing documents.

Haverford 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 Haverford 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 Haverford 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 Haverford 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.

November 3, 2016



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 Haverford 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 including, but not limited to, the following:

- Act 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.
- Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 761 et seq.

The Haverford Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 1047, as amended, adopted pursuant to Act 600. The plan is also affected by the provisions of collective bargaining agreements between the township and its police officers. The plan was established January 1, 1958. Active members are required to contribute 5 percent of compensation to the plan. As of December 31, 2015, the plan had 68 active members, 6 terminated members eligible for vested benefits in the future, and 81 retirees receiving pension benefits from the plan.

BACKGROUND – (Continued)

As of December 31, 2015, selected plan benefit provisions are as follows:

Eligibility Requirements:

Normal Retirement	Age 50 and 25 years of service. If hired after August 1, 2014, Age 53 and 25 years of service.
Early Retirement	Age 50 and 15 years of service (hired before 1/1/00). 20 years of service (hired on or after 1/1/00)
Vesting	A member is 100% vested after 12 years of service.

Retirement Benefit:

Benefit equals 50% of final 36 months average salary, plus a service increment equal to \$20 per month for each year of service in excess of 25 years, up to a maximum of \$100 per month.

Survivor Benefit:

In the event of the death of a retired officer, the survivor would receive 50% of the pension the member was receiving. If vested, refund of contributions with interest or 50% of vested benefit payable beginning at officer's superannuation retirement date. For members who retire on or after January 1, 2012, if death occurs within the first 8 years, spouse receives 100% of benefit for the remainder of 8 years, then benefit is reduced to 50%.

Service Related Disability Benefit:

Benefit equals 70% of base salary offset by Social Security disability benefits.

HAVERFORD TOWNSHIP POLICE PENSION PLAN
STATUS OF PRIOR FINDINGS

Compliance With Prior Audit Recommendations

Haverford Township has complied with the prior audit recommendations concerning the following:

- Pension Benefits Not In Compliance With Act 600 Provisions

During the current audit period, the plan's non-service related disability benefit was eliminated and the definition of salary was amended to comply with Act 600 for police officers hired on or after January 1, 2016. However, pension calculations for police officers hired prior to January 1, 2016, could continue to include lump-sum payments earned outside the pension computation period and those police officers could receive a non-service related disability benefit. During and subsequent to the current audit period, 6 police officers had accumulated lump-sum payments included in their pension calculations and 1 police officer received a non-service related disability benefit. Since the township received state aid based on unit value during the current audit period, it did not receive state aid attributable to the excess benefits provided. The Department will continue to monitor the impact of the excess benefits being paid to existing and future retirees on the township's future state aid allocations, which may require the township to reimburse any excess state aid received attributable to the excess pension benefits to the Commonwealth.

- Unauthorized Provision For A Killed In Service Benefit

The township removed the killed in service benefit provision from the plan's governing document and the collective bargaining agreement.

HAVERFORD TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 and 5 reflect 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, 2015 AND 2014

Total Pension Liability	<u>2015</u>	<u>2014</u>
Service cost	\$ 947,250	\$ 931,127
Interest	3,551,888	3,377,023
Change of benefit terms	(24,282)	-
Difference between expected and actual experience	(515,826)	-
Changes of assumptions	1,836,891	-
Benefit payments, including refunds of member contributions	<u>(2,340,070)</u>	<u>(2,255,036)</u>
Net Change in Total Pension Liability	3,455,851	2,053,114
Total Pension Liability - Beginning	<u>41,979,184</u>	<u>39,926,070</u>
Total Pension Liability - Ending (a)	<u><u>\$ 45,435,035</u></u>	<u><u>\$ 41,979,184</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 2,859,475	\$ 2,819,919
Contribution – member	363,562	340,793
Net investment income	(143,613)	1,606,146
Benefit payments, including refunds of member contributions	<u>(2,340,070)</u>	<u>(2,255,036)</u>
Administrative expense	<u>(28,635)</u>	<u>(13,194)</u>
Net Change in Plan Fiduciary Net Position	710,719	2,498,628
Plan Fiduciary Net Position – Beginning	<u>27,972,183</u>	<u>25,473,555</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 28,682,902</u></u>	<u><u>\$ 27,972,183</u></u>
Net Pension Liability - Ending (a-b)	<u><u>\$ 16,752,133</u></u>	<u><u>\$ 14,007,001</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.13%	66.63%
Estimated Covered Employee Payroll	\$ 6,888,822	\$ 6,468,876
Net Pension Liability as a Percentage of Covered Employee Payroll	243.18%	216.53%

HAVERFORD 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, 2015, calculated using the discount rate of 8.25%, 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 (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
Net Pension Liability	\$ 21,841,786	\$ 16,752,133	\$ 12,431,482

SCHEDULE OF INVESTMENT RETURNS

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

2015 (0.62%)

HAVERFORD 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, 2011, 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)
01-01-11	\$ 21,181,465	\$ 35,017,855	\$ 13,836,390	60.5%
01-01-13	25,093,752	38,045,779	12,952,027	66.0%
01-01-15	30,651,855	43,275,967	12,624,112	70.8%

Note: The market values of the plan's assets at 01-01-11 and 01-01-13 have been adjusted to reflect the smoothing of gains and/or losses at 130 percent of the market value of assets. The market value of the plan's assets at 01-01-15 has been adjusted to reflect the smoothing of gains and/or losses subject to maximum of 120 percent of the market value of assets. These methods will lower contributions in years of less than expected returns and increase contribution 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.

HAVERFORD 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.

HAVERFORD TOWNSHIP POLICE PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2010	\$ 1,656,653	100.0%
2011	2,098,377	100.0%
2012	2,301,044	108.6%
2013	2,519,507	100.0%
2014	2,470,741	114.1%
2015	2,510,297	113.9%

HAVERFORD 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, 2015
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	8 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205 subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	8.25%
Projected salary increases	5.25%
Cost-of-living adjustments	3.0%

HAVERFORD TOWNSHIP POLICE PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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Governor
Commonwealth of Pennsylvania

Mr. Christopher Connell Sr.
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