

# COMPLIANCE AUDIT

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## Hampden Township Police Pension Plan Cumberland County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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May 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
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Board of Township Commissioners  
Hampden Township  
Cumberland County  
Mechanicsburg, PA 17050

We have conducted a compliance audit of the Hampden Township Police 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 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 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 both 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 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, 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.

Hampden Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016 and 2017, 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.

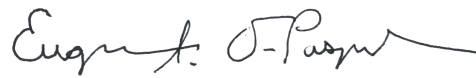
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Hampden Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances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

April 29, 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

## CONTENTS

	<u>Page</u>
Background.....	1
Status of Prior Finding.....	3
Supplementary Information .....	4
Report Distribution List .....	10

## 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 Hampden 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 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Hampden Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 03-11, 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, 1960. Active members were required to contribute 4, 4.5, 5, and 5 percent of compensation to the plan for the years 2015, 2016, 2017, and 2018, respectively. As of December 31, 2018, the plan had 23 active members, 1 terminated member eligible for vested benefits in the future, and 19 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	For participants hired before January 1, 2014: Age 50 and 25 years of service.
	For participants hired after January 1, 2014: Age 55 and 25 years of service.
Early Retirement	Eligible with 20 years of service.
Vesting	100% vesting available after 12 years of service.

### Retirement Benefit:

A monthly benefit equal to 50% of Final Monthly Average Salary (total pay including unused leave, averaged over the final 36 months) plus a service increment of \$50 per month for each completed year of service over 25 up to a maximum of \$500.

### Survivor Benefit:

Before Retirement Eligibility	Refund of member contributions plus interest.
After Retirement Eligibility	A monthly benefit equal to 50% of the pension the member was receiving or was entitled to receive on the day of the member's death.

### Service Related Disability Benefit:

Benefit equals 50% of Final Monthly Average Salary but not less than 50% of the participant's salary at the time the disability was incurred.

HAMPDEN TOWNSHIP POLICE PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

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

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

During the current audit period, municipal officials complied with the instructions that accompanied Certification Forms AG 385 and accurately reported the required pension data.



HAMPDEN 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 plans.

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	\$ 241,514	\$ 294,279	\$ 308,993	\$ 392,647	\$ 412,279
Interest	885,255	912,050	951,409	1,031,218	1,080,354
Difference between expected and actual experience	-	(152,384)	-	192,372	-
Changes of assumptions	-	-	-	726,767	-
Benefit payments, including refunds of member contributions	<u>(658,676)</u>	<u>(681,510)</u>	<u>(711,521)</u>	<u>(738,456)</u>	<u>(794,055)</u>
Net Change in Total Pension Liability	468,093	372,435	548,881	1,604,548	698,578
Total Pension Liability – Beginning	<u>11,885,268</u>	<u>12,353,361</u>	<u>12,725,796</u>	<u>13,274,677</u>	<u>14,879,225</u>
Total Pension Liability – Ending (a)	<u><u>\$ 12,353,361</u></u>	<u><u>\$ 12,725,796</u></u>	<u><u>\$ 13,274,677</u></u>	<u><u>\$ 14,879,225</u></u>	<u><u>\$ 15,577,803</u></u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 570,675	\$ 558,513	\$ 517,684	\$ 540,465	\$ 689,459
Contributions – member	62,201	77,651	93,665	114,783	111,968
Net investment income	656,525	(77,919)	908,612	1,637,296	(756,584)
Benefit payments, including refunds of member contributions	<u>(658,676)</u>	<u>(681,510)</u>	<u>(711,521)</u>	<u>(738,456)</u>	<u>(794,055)</u>
Administrative expense	<u>(34,890)</u>	<u>(34,725)</u>	<u>(37,313)</u>	<u>(41,375)</u>	<u>(40,972)</u>
Net Change in Plan Fiduciary Net Position	595,835	(157,990)	771,127	1,512,713	(790,184)
Plan Fiduciary Net Position – Beginning	<u>10,515,601</u>	<u>11,111,436</u>	<u>10,953,446</u>	<u>11,724,573</u>	<u>13,237,286</u>
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 11,111,436</u></u>	<u><u>\$ 10,953,446</u></u>	<u><u>\$ 11,724,573</u></u>	<u><u>\$ 13,237,286</u></u>	<u><u>\$ 12,447,102</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 1,241,925</u></u>	<u><u>\$ 1,772,350</u></u>	<u><u>\$ 1,550,104</u></u>	<u><u>\$ 1,641,939</u></u>	<u><u>\$ 3,130,701</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.9%	86.1%	88.3%	89.0%	79.9%
Estimated Covered Employee Payroll	\$ 1,810,609	\$ 1,923,137	\$ 2,138,205	\$ 2,125,818	\$ 2,271,765
Net Pension Liability as a Percentage of Covered Employee Payroll	68.6%	92.2%	72.5%	77.2%	137.8%

HAMPDEN 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, 2015 and 2016, calculated using the discount rate of 7.50%, 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 (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability – 12/31/14	\$ 2,689,533	\$ 1,241,925	\$ 26,704
Net Pension Liability – 12/31/15	\$ 3,289,670	\$ 1,772,350	\$ 500,455
Net Pension Liability – 12/31/16	\$ 3,128,925	\$ 1,550,104	\$ 226,647

The following presents the net pension liability of the township as of December 31, 2017 and 2018, calculated using the discount rate of 7.25%, 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 (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net Pension Liability – 12/31/17	\$ 3,544,670	\$ 1,641,939	\$ 63,503
Net Pension Liability – 12/31/18	\$ 5,121,368	\$ 3,130,701	\$ 1,479,201

HAMPDEN 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
2009	\$ 285,507	\$ 285,507	\$ -	\$ -	
2010	302,014	302,014	-	1,497,175	20.2%
2011	365,579	365,579	-	-	
2012	367,765	320,523	47,242	1,527,978	21.0%
2013	504,776	504,776	-	-	
2014	570,675	570,675	-	1,810,609	31.5%
2015	558,513	558,513	-	1,923,137	29.0%
2016	517,684	517,684	-	2,138,205	24.2%
2017	540,465	540,465	-	2,125,818	25.4%
2018	689,459	689,459	-	2,271,765	30.3%

\* Due to GASB Statement No. 67, *Financial Reporting for Pension Plans*, being implemented only recently, the amount of Covered-Employee Payroll was not provided for odd years prior to 2014.

For 2012, the contribution deficiency reflects the 25 percent reduction to the plan's amortization contribution elected by the municipality under Act 44 for distressed municipalities which allows for such reduction.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(5.81%)
2017	13.88%
2016	8.17%
2015	(1.04%)
2014	6.10%

HAMPDEN 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	\$ 8,871,072	\$ 11,391,372	\$ 2,520,300	77.9%
01-01-15	10,602,809	12,200,977	1,598,168	86.9%
01-01-17	12,126,167	14,193,816	2,067,649	85.4%

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 over a four-year averaging period subject to a corridor between 80 to 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.

HAMPDEN 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.

HAMPDEN TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(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	7 years
Asset valuation method	4-year smoothing, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	5.00%
Cost-of-living adjustments	March 1 <sup>st</sup> annually, subject to the percentage change in Consumer Price Index.

HAMPDEN 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. Albert H. Bienstock**  
President, Board of Township Commissioners

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Township Commissioner

**Mr. Keith B. Metts**  
Township Manager

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