

# COMPLIANCE AUDIT

---

## Hatfield Township Municipal Employees Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

---

September 2019



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



**Commonwealth of Pennsylvania  
Department of the Auditor General  
Harrisburg, PA 17120-0018  
Facebook: Pennsylvania Auditor General  
Twitter: @PAAuditorGen  
www.PaAuditor.gov**

**EUGENE A. DePASQUALE  
AUDITOR GENERAL**

Board of Township Commissioners  
Hatfield Township  
Montgomery County  
Hatfield, PA 19440

We have conducted a compliance audit of the Hatfield Township Municipal 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 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 all three 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 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 the plan member who elected to vest during the current audit period 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 the retired individual and comparing this amount to supporting documentation evidencing the amount determined.
- 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.

Hatfield 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 Hatfield Township Municipal 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 Hatfield Township Municipal 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 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205

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 Hatfield Township and, where appropriate, their responses have been included in the report.

August 28, 2019



EUGENE A. DEPASQUALE  
Auditor General

# CONTENTS

	<u>Page</u>
Background.....	1
Finding And Recommendation:	
Finding – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205.....	3
Supplementary Information .....	5
Report Distribution List .....	11

## 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 Hatfield Township Municipal 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.

The Hatfield Township Municipal Employees Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 606, as amended, for non-uniformed employees hired before January 1, 2013. The plan was established November 14, 1974. Active members were required to contribute 1.5 percent of compensation to the plan. As of December 31, 2018, the plan had 14 active members, 7 terminated members eligible for vested benefits in the future, and 14 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	Age 65 and 10 years of service.
Early Retirement	Age 55 and 25 years of service, or age 62 and 10 years of service, if earlier.
Vesting	A member is 100% vested with 5 years of service.

### Retirement Benefit:

Benefit equals 30% of average monthly compensation based on highest 3 consecutive years of compensation plus 30% of average monthly compensation in excess of \$2,083.33, proportionally reduced for less than 25 years of vesting service.

### Survivor Benefit:

Hired prior to 1-1-2011: if retired, 100% of benefit to surviving spouse.

All members: if before retirement, benefit payable to beneficiary equal to present value of accrued pension.

### Disability Benefit:

After six months of disability, benefit equal to the actuarial equivalent of the benefit accrued to disability retirement date.

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 205**

**Condition:** In 2018, the township changed custodians and entered into an agreement with a provider for custodial services for the pension plan; however, there was no evidence provided to support that the contracting for these professional services was conducted and awarded in accordance with provisions of Act 205.

**Criteria:** Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and
- (2) not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states, in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract.

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.



HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES PENSION PLAN  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate internal control procedures to evidence compliance with provisions of Act 205 relative to professional services contracts for the pension plan.

Effect: The township's failure to comply with the provisions stipulated in Act 205 for the procurement of professional custodial services for the pension plan denotes a general lack of overall transparency of the actions taken by plan officials relative to the contracting for custodial services for the pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 205 for the procurement of professional services and develop and implement formal written procedures to ensure compliance with these provisions, which should include the maintaining of appropriate and sufficient supporting documentation evidencing every phase of the process to ensure the transparency of the actions taken by plan officials relative to the awarding of any future professional services contracts for the pension plan.

Management Response: On July 24, 2019, the township adopted Resolution No. 19-18, which adopts procedures for compliance with the professional service contract provision of Act 44 of 2009.

Auditor Conclusion: The township's full compliance with the finding recommendation will be evaluated during our next audit of the plan.

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on Pages 5 through 7 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	\$ 178,192	\$ 153,042	\$ 160,694	\$ 146,705	\$ 154,040
Interest	236,776	240,439	263,688	280,035	301,476
Difference between expected and actual experience	-	(237,871)	-	(74,883)	-
Benefit payments, including refunds of member contributions	(106,056)	(106,264)	(114,776)	(147,561)	(184,572)
Net Change in Total Pension Liability	308,912	49,346	309,606	204,296	270,944
Total Pension Liability – Beginning	2,834,534	3,143,446	3,192,792	3,502,398	3,706,694
Total Pension Liability – Ending (a)	<u>\$ 3,143,446</u>	<u>\$ 3,192,792</u>	<u>\$ 3,502,398</u>	<u>\$ 3,706,694</u>	<u>\$ 3,977,638</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 159,538	\$ 180,543	\$ 149,159	\$ 139,820	\$ 137,577
Contributions – member	11,301	18,026	17,926	17,067	16,003
Net investment income	202,793	(16,042)	205,918	544,557	(299,926)
Benefit payments, including refunds of member contributions	(106,056)	(106,264)	(114,776)	(147,561)	(184,572)
Administrative expense	(1,119)	(11,600)	(6,784)	(12,625)	(4,600)
Net Change in Plan Fiduciary Net Position	266,457	64,663	251,443	541,258	(335,518)
Plan Fiduciary Net Position – Beginning	2,764,564	3,031,021	3,095,684	3,347,127	3,888,385
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,031,021</u>	<u>\$ 3,095,684</u>	<u>\$ 3,347,127</u>	<u>\$ 3,888,385</u>	<u>\$ 3,552,867</u>
Net Pension Liability – Ending (a-b)	<u>\$ 112,425</u>	<u>\$ 97,108</u>	<u>\$ 155,271</u>	<u>\$ (181,691)</u>	<u>\$ 424,771</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.4%	97.0%	95.6%	104.9%	89.3%
Estimated Covered Employee Payroll	\$ 1,177,324	\$ 1,207,105	\$ 1,197,116	\$ 1,055,400	\$ 1,027,797
Net Pension Liability as a Percentage of Covered Employee Payroll	9.5%	8.0%	13.0%	(17.2%)	41.3%

HATFIELD TOWNSHIP MUNICIPAL 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 8.0%, 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 (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
Net Pension Liability – 12/31/14	\$ 538,195	\$ 112,425	\$ (246,476)
Net Pension Liability – 12/31/15	\$ 499,454	\$ 97,108	\$ (242,784)
Net Pension Liability – 12/31/16	\$ 589,394	\$ 155,271	\$ (212,279)
Net Pension Liability – 12/31/17	\$ 259,949	\$ (181,691)	\$ (557,806)
Net Pension Liability – 12/31/18	\$ 894,485	\$ 424,771	\$ 23,844

HATFIELD TOWNSHIP MUNICIPAL 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	\$ 105,082	\$ 105,082	\$ -		
2010	136,245	136,245	-		
2011	155,870	155,870	-		
2012	166,737	166,737	-		
2013	192,600	192,600	-		
2014	159,538	159,538	-	\$1,177,324	13.55%
2015	167,496	180,543	(13,047)	1,207,105	13.88%**
2016	136,331	149,159	(12,828)	1,197,116	12.46%
2017	139,820	139,820	-	1,055,400	13.25%
2018	137,577	137,577	-	1,027,797	13.39%

\* 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 years prior to 2014.

\*\* We note that in this schedule presented by the municipality, the Contributions amount used in calculating this percentage for 2015 was the Actuarially Determined Contribution, while this percentage is typically determined using Actual Contributions.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.8%)
2017	16.11%
2016	6.93%
2015	(0.32%)
2014	7.28%

HATFIELD TOWNSHIP MUNICIPAL 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	\$ 2,288,720	\$ 2,543,957	\$ 255,237	90.0%
01-01-15	3,031,021	2,905,575	(125,446)	104.3%
01-01-17	3,347,127	3,427,515	80,388	97.7%

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES 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.

HATFIELD TOWNSHIP MUNICIPAL 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	13 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	None assumed

HATFIELD TOWNSHIP MUNICIPAL EMPLOYEES PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Mr. Tom Zipfel**  
President, Board of Township Commissioners

**Mr. Larry Hughes**  
Vice President, Board of Township Commissioners

**Ms. Laura Thomas**  
Township Commissioner

**Mr. Bob Rodgers**  
Township Commissioner

**Mr. Gerald Andris**  
Township Commissioner

**Mr. Aaron Bibro**  
Township Manager

**Mr. David Bernhauser**  
Finance Director

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).