

COMPLIANCE AUDIT

Hatfield Township Police 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



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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 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 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 four 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 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 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.

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 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 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 Police 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 27, 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 Hatfield 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 Hatfield Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 582, 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 August 2, 1972. Active members are required to contribute 5 percent of base salary to the plan. As of December 31, 2018, the plan had 26 active members, 1 terminated member eligible for vested benefits in the future, and 24 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 50 and 25 years of service.
- Early Retirement Eligible with 20 years of service.
- Vesting A member is 100% with 12 years of service.

Retirement Benefit:

Benefit equals 50% of average monthly compensation based on the last 36 months, plus a service increment of \$100 per month for each completed year of benefit service in excess of 25 years, up to a maximum of \$500 per month.

Survivor Benefit:

If retired or eligible for retirement, 50% of benefit to surviving spouse or eligible child.

Service Related Disability Benefit:

If an active member is disabled in the line of duty, he is eligible for a disability pension. The monthly disability pension is equal to 50% of the member's monthly salary at the time of disability.

HATFIELD TOWNSHIP POLICE 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 POLICE 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 POLICE 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	\$ 398,771	\$ 390,584	\$ 410,113	\$ 412,265	\$ 432,878
Interest	1,274,712	1,298,471	1,418,806	1,483,486	1,559,612
Difference between expected and actual experience	-	(182,493)	-	(238,247)	-
Changes of assumptions	-	(211,282)	-	-	-
Benefit payments, including refunds of member contributions	(706,184)	(521,103)	(719,463)	(811,059)	(882,112)
Net Change in Total Pension Liability	<u>967,299</u>	<u>774,177</u>	<u>1,109,456</u>	<u>846,445</u>	<u>1,110,378</u>
Total Pension Liability – Beginning	15,969,636	16,936,935	17,711,112	18,820,568	19,667,013
Total Pension Liability – Ending (a)	<u>\$ 16,936,935</u>	<u>\$ 17,711,112</u>	<u>\$ 18,820,568</u>	<u>\$ 19,667,013</u>	<u>\$ 20,777,391</u>
Plan Fiduciary Net Position					
Contributions – employer	\$ 751,765	\$ 848,887	\$ 716,459	\$ 688,248	\$ 697,356
Contributions – member	111,177	137,150	138,147	140,027	151,013
Net investment income	934,122	(83,513)	915,903	2,474,531	(1,296,384)
Benefit payments, including refunds of member contributions	(706,184)	(521,103)	(719,463)	(811,059)	(882,112)
Administrative expense	(4,476)	(12,100)	(13,136)	(7,900)	(7,000)
Net Change in Plan Fiduciary Net Position	<u>1,086,404</u>	<u>369,321</u>	<u>1,037,910</u>	<u>2,483,847</u>	<u>(1,337,127)</u>
Plan Fiduciary Net Position – Beginning	12,936,891	14,023,295	14,392,616	15,430,526	17,914,373
Plan Fiduciary Net Position – Ending (b)	<u>\$ 14,023,295</u>	<u>\$ 14,392,616</u>	<u>\$ 15,430,526</u>	<u>\$ 17,914,373</u>	<u>\$ 16,577,246</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,913,640</u>	<u>\$ 3,318,496</u>	<u>\$ 3,390,042</u>	<u>\$ 1,752,640</u>	<u>\$ 4,200,145</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.8%	81.3%	82.0%	91.1%	79.8%
Estimated Covered Employee Payroll	\$ 2,573,944	\$ 2,788,396	\$ 2,691,509	\$ 2,733,106	\$ 3,047,202
Net Pension Liability as a Percentage of Covered Employee Payroll	113.2%	119.0%	126.0%	64.1%	137.8%

HATFIELD 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, 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:

	<u>1% Decrease (7.0%)</u>	<u>Current Discount Rate (8.0%)</u>	<u>1% Increase (9.0%)</u>
Net Pension Liability – 12/31/14	\$ 4,969,538	\$ 2,913,640	\$ 1,182,638
Net Pension Liability – 12/31/15	\$ 5,461,845	\$ 3,318,496	\$ 1,515,039
Net Pension Liability – 12/31/16	\$ 5,624,983	\$ 3,390,042	\$ 1,515,726
Net Pension Liability – 12/31/17	\$ 4,048,159	\$ 1,752,640	\$ (184,009)
Net Pension Liability – 12/31/18	\$ 6,579,427	\$ 4,200,145	\$ 2,190,832

HATFIELD 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	\$ 334,873	\$ 334,873	\$ -		
2010	351,857	351,857	-		
2011	466,638	466,638	-		
2012	447,277	447,277	-		
2013	750,479	750,479	-		
2014	751,765	751,765	-	\$2,573,944	29.21%
2015	848,887	848,887	-	2,788,396	30.44%
2016	716,459	716,459	-	2,691,509	26.62%
2017	688,248	688,248	-	2,733,106	25.18%
2018	697,346	697,356	(10)	3,047,202	22.89%

* 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.

SCHEDULE OF INVESTMENT RETURNS

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

2018	(6.6%)
2017	16.25%
2016	6.76%
2015	(0.43%)
2014	7.16%

HATFIELD 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	\$ 11,009,453	\$ 15,085,796	\$ 4,076,343	73.0%
01-01-15	14,023,295	16,543,160	2,519,865	84.8%
01-01-17	15,430,526	18,582,321	3,151,795	83.0%

HATFIELD 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.

HATFIELD 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	8 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.0%
Cost-of-living adjustments	Equal to CPI increase with a maximum total increase of 30%. Maximum pension benefit is 75% of salary at the time of retirement.

HATFIELD 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. Tom Zipfel
President, Board of Township Commissioners

Mr. Larry Hughes
Vice President, Board of Township Commissioners

Ms. Laura Thomas
Township Commissioner

Mr. Bob Rodgers
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