

COMPLIANCE AUDIT

Northampton Township Non-Uniformed Pension Plan Bucks County, Pennsylvania For the Period January 1, 2016 to December 31, 2018

April 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 Supervisors
Northampton Township
Bucks County
Richboro, PA 18954

We have conducted a compliance audit of the Northampton Township Non-Uniformed 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 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 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 whether retirement benefits calculated for all five 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 all three of the plan members 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 retired individuals and comparing these amounts to supporting documentation evidencing amounts 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.

Northampton Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 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 Northampton Township Non-Uniformed 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 Northampton Township Non-Uniformed 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 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

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

April 15, 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 Northampton Township Non-Uniformed 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 Northampton Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 548, as amended, for non-uniformed employees hired before January 1, 2015. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. The plan was established January 3, 1967. Active members are not required to contribute to the plan. As of December 31, 2018, the plan had 52 active members, 22 terminated members eligible for vested benefits in the future, and 29 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
Early Retirement	Age 55 and 10 years of service.
Vesting	50% after 5 years of service, increasing by 10% per year until 100% after 10 years of service.

Retirement Benefit:

If hired before January 1, 1994, the greater of A or B. If hired after January 1, 1994, B.

- A) A benefit equal to 1% of Final Monthly Average Salary (FMAS) up to \$1,000 plus 1.75% of FMAS in excess of \$1,000, multiplied by years of service prior to normal retirement date. The benefit shall not be less than \$10/month for each year of service.
- B) A monthly benefit equal to 1.5% FMAS multiplied by years of service, up to a maximum of 30 years, plus 1.0% of FMAS multiplied by years of service in excess of 30 years.

Survivor Benefit:

After vesting eligibility	Survivor's portion of the participant's accrued benefit adjusted for the joint and 100% survivor option and early retirement, if applicable, is payable to the spouse for life, starting at the date the participant would have been eligible for early retirement.
After Retirement	None, except as provided by the form of benefit payment in force at the time death occurs.

Disability Benefit:

After the completion of 10 years of service, the accrued benefit at date of disablement offset by worker's compensation is payable.

NORTHAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDING AND RECOMMENDATION

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

Condition: The township failed to certify 1 eligible non-uniformed employee (1 unit) and understated payroll by \$32,411 on the Certification Form AG 385 filed in 2015 and 3 eligible non-uniformed employees (3 units) and understated payroll by \$108,918 on the Certification Form AG 385 filed in 2016. The data contained on these certification forms is based on prior calendar year information.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township’s state aid allocations were based on unit value, the township received an underpayment of state aid in the amount of \$17,046 as identified below:

<u>Year</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2015	1	\$ 3,921	\$ 3,921
2016	3	\$ 4,375	<u>13,125</u>
Total Underpayment of State Aid			<u><u>\$ 17,046</u></u>

Although the additional state aid will be allocated to the township, the full amount of the 2015 and 2016 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management’s Response: Municipal officials agreed with the finding without exception.

Auditor’s Conclusion: Compliance will be evaluated during our next audit of the plan.

NORTHAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

The supplementary information contained on Pages 4 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 321,375	\$ 341,598
Interest	908,895	972,524
Difference between expected and actual experience	19,124	-
Changes of assumptions	-	-
Benefit payments, including refunds of member contributions	(407,680)	(435,288)
Net Change in Total Pension Liability	<u>841,714</u>	<u>878,834</u>
Total Pension Liability – Beginning	11,997,390	12,839,104
Total Pension Liability – Ending (a)	<u><u>\$ 12,839,104</u></u>	<u><u>\$ 13,717,938</u></u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 742,000	\$ 780,088
Net investment income	332,310	(189,522)
Benefit payments, including refunds of member contributions	(407,680)	(435,288)
Administrative expense	(6,488)	(43,739)
Net Change in Plan Fiduciary Net Position	<u>660,142</u>	<u>111,539</u>
Plan Fiduciary Net Position – Beginning	9,034,137	9,694,279
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 9,694,279</u></u>	<u><u>\$ 9,805,818</u></u>
Net Pension Liability – Ending (a-b)	<u><u>\$ 3,144,825</u></u>	<u><u>\$ 3,912,120</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.5%	71.5%
Estimated Covered Employee Payroll	\$ 3,941,799	\$ 4,034,906
Net Pension Liability as a Percentage of Covered Employee Payroll	79.8%	97.0%

NORTHAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
 SUPPLEMENTARY INFORMATION
 (UNAUDITED)

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

	<u>2016</u>	<u>2017</u>
Total Pension Liability		
Service cost	\$ 335,522	\$ 338,654
Interest	1,036,959	1,151,841
Difference between expected and actual experience	-	(379,098)
Changes of assumptions	-	1,011,734
Benefit payments, including refunds of member contributions	(463,034)	(490,455)
Net Change in Total Pension Liability	<u>909,447</u>	<u>1,632,676</u>
Total Pension Liability – Beginning	13,717,938	14,627,385
Total Pension Liability – Ending (a)	<u>\$ 14,627,385</u>	<u>\$ 16,260,061</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 801,499	\$ 767,088
Net investment income	660,603	1,428,195
Benefit payments, including refunds of member contributions	(463,034)	(490,455)
Administrative expense	(36,810)	(46,637)
Net Change in Plan Fiduciary Net Position	<u>962,258</u>	<u>1,658,191</u>
Plan Fiduciary Net Position – Beginning	9,805,818	10,768,076
Plan Fiduciary Net Position – Ending (b)	<u>\$ 10,768,076</u>	<u>\$ 12,426,267</u>
Net Pension Liability – Ending (a-b)	<u>\$ 3,859,309</u>	<u>\$ 3,833,794</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	73.6%	76.4%
Estimated Covered Employee Payroll	\$ 3,721,891	\$ 3,743,396
Net Pension Liability as a Percentage of Covered Employee Payroll	103.7%	102.4%

NORTHAMPTON TOWNSHIP NON-UNIFORMED 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, 2016 and 2017, calculated using the discount rate of 7.5%, 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 (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net Pension Liability – 12/31/16	\$ 5,534,834	\$ 3,859,309	\$ 2,426,497
Net Pension Liability – 12/31/17	\$ 5,755,992	\$ 3,833,794	\$ 2,199,198

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	\$ 425,243	\$ 425,243	\$ -	\$2,973,165	14.3%
2010	432,152	432,152	-	3,348,227	12.9%
2011	523,800	474,000	49,800	3,348,227	14.2%
2012	528,505	479,001	49,504	3,476,663	13.8%
2013	733,265	734,063	(798)	3,476,663	21.1%
2014	741,199	742,000	(801)	3,941,799	18.8%
2015	780,088	780,088	-	4,034,906	19.3%
2016	794,035	801,499	(7,464)	3,721,891	21.5%
2017	767,088	767,088	-	3,743,396	20.5%
2018	761,231	762,000	(769)		

* Due to the timing of this audit, covered-employee payroll for 2018 was not provided in this schedule.

For 2011 and 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.

NORTHAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF INVESTMENT RETURNS

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

2017	13.2%
2016	6.64%
2015	(1.97%)
2014	4.05%

NORTHAMPTON TOWNSHIP NON-UNIFORMED 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 Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 7,857,593	\$ 11,209,008	\$ 3,351,415	70.1%
01-01-15	9,694,286	12,839,104	3,144,818	75.5%
01-01-17	11,370,526	15,260,021	3,889,495	74.5%

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.

NORTHAMPTON TOWNSHIP NON-UNIFORMED 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.

NORTHAMPTON TOWNSHIP NON-UNIFORMED 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	10 years
Asset valuation method	4-year smoothing, the actuarial value of assets will be limited to a maximum of 120% and a minimum of 80% of the fair market value of assets.
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	5.0%
Cost-of-living adjustments	Cost-of-living increases shall not exceed the percentage increase in the Consumer Price Index from the date the member retired.

NORTHAMPTON TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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