

COMPLIANCE AUDIT

West Norriton Township Non-Uniformed Pension Plan Montgomery County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

May 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
West Norriton Township
Montgomery County
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We have conducted a compliance audit of the West Norriton Township Non-Uniformed 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 all six 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 the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients. We also determined whether retirement benefits calculated for the lone 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 benefits due to the retired individual 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.
- 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.

West Norriton Township contracted with an independent certified public accounting firm for annual audits of its financial statements for the years ended December 31, 2015, 2016, and 2017 prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania, 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 West Norriton 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 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 West Norriton Township Non-Uniformed 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. However, **we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 62.3% as of January 1, 2017, which is the most recent data available.** We encourage township officials to monitor the funding of the non-uniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of West Norriton 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 24, 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 West Norriton 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 West Norriton Township Non-Uniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 489, as amended. 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 1, 1964. Management members are not required to contribute to the plan. Union members are required to contribute 0.50 percent of their compensation to the plan. As of December 31, 2018, the plan had 20 active members, 15 terminated members eligible for vested benefits in the future, and 22 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 completion of 5 years of service.

Early Retirement Each participant who terminates employment on or after January 1, 2000, will be eligible for early retirement on the first month coincident with or next following attainment of age 55 but prior to Normal Retirement Date. Each Participant who terminated employment prior to January 1, 2000, will be eligible for early retirement on the first of the month coincident with or next following attainment of age 60 but prior to Normal Retirement Date. Accrued Benefit determined on Early Retirement Date, reduced 5/12% for each month by which Early Retirement Date precedes Normal Retirement date. The early retirement benefit for a participant who terminates employment on or after October 1, 2004 with at least 25 years of service shall equal his accrued benefit determined as of date of termination, reduced by five twelfths (5/12%) percent for each completion month, if any, by which such actual retirement date precedes the first day of the month coincident with or next following age 62.

Vesting 100% vesting available after 5 completed years of service.

Retirement Benefit:

A monthly benefit equal to 50% of the Average monthly compensation, but in no circumstance is the monthly benefit of the participant less than ten dollars (\$10.00).

Survivor Benefit:

After Retirement Eligibility A monthly benefit equal to 50% of the Accrued Benefit the member was receiving or was entitled to receive on the day of the member's death.

Disability Benefit:

None

WEST NORRITON TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

West Norriton Township has complied with the prior audit recommendation concerning the following:

· Incorrect Data On Certification Form AG 385 Resulting In An Overpayment of State Aid

Township officials returned the overpayment of state aid, plus interest to the Commonwealth. In addition, plan officials complied with the instructions that accompanied Certification Form AG 385s submitted since the last report and accurately reported the required data.

WEST NORRITON TOWNSHIP NON-UNIFORMED 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 AND 2015

	<u>2014</u>	<u>2015</u>
Total Pension Liability		
Service cost	\$ 130,171	\$ 136,028
Interest	405,276	423,906
Difference between expected and actual experience	-	140,209
Benefit payments, including refunds of member contributions	<u>(301,536)</u>	<u>(272,551)</u>
Net Change in Total Pension Liability	233,911	427,592
Total Pension Liability – Beginning	5,554,448	5,788,359
Total Pension Liability – Ending (a)	<u>\$ 5,788,359</u>	<u>\$ 6,215,951</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 232,544	\$ 271,970
Contributions – member	3,852	5,255
Net investment income	223,729	(19,677)
Benefit payments, including refunds of member contributions	<u>(301,536)</u>	<u>(272,551)</u>
Administrative expense	<u>(41,497)</u>	<u>(44,310)</u>
Net Change in Plan Fiduciary Net Position	117,092	(59,313)
Plan Fiduciary Net Position – Beginning	3,122,284	3,239,376
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,239,376</u>	<u>\$ 3,180,063</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,548,983</u>	<u>\$ 3,035,888</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.96%	51.16%
Estimated Covered Employee Payroll	\$ 1,342,139	\$ 1,363,136
Net Pension Liability as a Percentage of Covered Employee Payroll	189.92%	222.71%

WEST NORRITON 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	\$ 128,798	\$ 120,157
Interest	454,552	463,206
Difference between expected and actual experience	-	(153,861)
Changes of assumptions	-	23,082
Benefit payments, including refunds of member contributions	(310,528)	(363,831)
Net Change in Total Pension Liability	<u>272,822</u>	<u>88,753</u>
Total Pension Liability – Beginning	6,215,951	6,488,773
Total Pension Liability – Ending (a)	<u>\$ 6,488,773</u>	<u>\$ 6,577,526</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 443,039	\$ 443,158
Contributions – member	6,057	5,561
Net investment income	325,425	560,861
Benefit payments, including refunds of member contributions	(310,528)	(363,831)
Administrative expense	(21,943)	(25,016)
Net Change in Plan Fiduciary Net Position	<u>442,050</u>	<u>620,733</u>
Plan Fiduciary Net Position – Beginning	3,180,063	3,622,113
Plan Fiduciary Net Position – Ending (b)	<u>\$ 3,622,113</u>	<u>\$ 4,242,846</u>
Net Pension Liability – Ending (a-b)	<u>\$ 2,866,660</u>	<u>\$ 2,334,680</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	55.82%	64.51%
Estimated Covered Employee Payroll	\$ 1,393,599	\$ 1,364,236
Net Pension Liability as a Percentage of Covered Employee Payroll	205.70%	171.13%

WEST NORRITON 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, 2014, 2015, 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 – 12/31/14	\$ 3,188,788	\$ 2,548,983	\$ 2,002,281
Net Pension Liability – 12/31/15	\$ 3,706,227	\$ 3,035,888	\$ 2,462,784
Net Pension Liability – 12/31/16	\$ 3,553,211	\$ 2,866,660	\$ 2,279,509
Net Pension Liability – 12/31/17	\$ 3,040,410	\$ 2,334,680	\$ 1,730,728

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
2011	\$ 251,510	\$ 251,510	\$ -	\$1,344,940	18.70%
2012	237,025	237,025	-	1,134,408	20.89%
2013	216,245	216,245	-	1,281,970	16.87%
2014	232,544	232,544	-	1,342,139	17.33%
2015	271,970	271,970	-	1,363,136	19.95%
2016	443,039	443,039	-	1,393,599	31.79%
2017	443,158	443,158	-	1,364,236	32.48%
2018	469,889	469,889	-	*	*

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

WEST NORRITON 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 Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)
01-01-13	\$ 3,157,089	\$ 4,582,125	\$ 1,425,036	68.9%
01-01-15	3,431,289	5,930,669	2,499,380	57.9%
01-01-17	3,965,956	6,370,232	2,404,276	62.3%

Note: The market value of the plan’s assets at 01-01-13 has been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 70 to 130 percent of the market value of assets. The market values of the plan’s assets at 01-01-15 and 01-01-17 have been adjusted to reflect the smoothing of gains and/or losses subject to a corridor between 80 to 120 percent of the market value of assets. These methods 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.

WEST NORRITON 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.

WEST NORRITON 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	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a corridor between 80-120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return *	7.5%
Projected salary increases	4.5%

* Includes inflation at 2.5%

WEST NORRITON TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
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