

# COMPLIANCE AUDIT

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## West Norriton Township Police Pension Plan Montgomery 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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West Norriton Township  
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Jeffersonville, PA 19403

We have conducted a compliance audit of the West Norriton 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 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 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 the sole 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 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 West Norriton 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 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 23, 2019



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Supplementary Information .....	3
Report Distribution List .....	9

## 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 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 147 - Special Ad Hoc Municipal Police and Firefighter Postretirement Adjustment Act, Act of December 14, 1988 (P.L. 1192, No. 147), as amended, 53 P.S. § 896.101 et seq.

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 West Norriton Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 08-629, 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, 1967. Active members were required to contribute 2.5 percent of their compensation to the plan for the year 2015, and 3 percent of their compensation to the plan for the years 2016, 2017, and 2018. As of December 31, 2018, the plan had 23 active members, 1 terminated member eligible for vested benefits in the future, and 25 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 completion of 25 years of service.
- Early Retirement     None
- Vesting                100% vesting available after 12 completed years of service.

Retirement Benefit:

Benefit equals 50% of monthly average salary during the last 36 months of employment, plus \$100 a month for each year of service in excess of 25. The service increment will be capped at \$100 for those hired after January 1, 2000.

Survivor Benefit:

- Before Retirement Eligibility    Refund of member contributions plus interest.
- After Retirement Eligibility      Benefit equal to 50% of the member’s Normal Retirement Benefit. If there is no surviving spouse or if the spouse dies, the member’s child or children will receive the benefit until age 18, or age 23 if attending college.

Service Related Disability Benefit:

According to the following schedule:

1 day through 24 months	100% of compensation
25 <sup>th</sup> month through 48 months	90% of compensation
49 <sup>th</sup> month through 60 months	80% of compensation
After 60 months	70% of compensation

WEST NORRITON TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The supplementary information contained on pages 3 through 5 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	\$ 649,785	\$ 679,025
Interest	1,197,471	1,282,593
Difference between expected and actual experience	-	(672,909)
Benefit payments, including refunds of member contributions	(716,502)	(708,087)
Net Change in Total Pension Liability	<u>1,130,754</u>	<u>580,622</u>
Total Pension Liability – Beginning	16,324,530	17,455,284
Total Pension Liability – Ending (a)	<u><u>\$ 17,455,284</u></u>	<u><u>\$ 18,035,906</u></u>
 Plan Fiduciary Net Position		
Contributions – employer	\$ 788,038	\$ 952,976
Contributions – member	71,778	64,631
Net investment income	690,836	(77,735)
Benefit payments, including refunds of member contributions	(716,502)	(708,087)
Administrative expense	(70,174)	(74,949)
Net Change in Plan Fiduciary Net Position	<u>763,976</u>	<u>156,836</u>
Plan Fiduciary Net Position – Beginning	9,986,100	10,750,076
Plan Fiduciary Net Position – Ending (b)	<u><u>\$ 10,750,076</u></u>	<u><u>\$ 10,906,912</u></u>
 Net Pension Liability – Ending (a-b)	<u><u>\$ 6,705,208</u></u>	<u><u>\$ 7,128,994</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	61.59%	60.47%
 Estimated Covered Employee Payroll	\$ 2,904,910	\$ 2,829,774
 Net Pension Liability as a Percentage of Covered Employee Payroll	230.82%	251.93%

WEST NORRITON TOWNSHIP POLICE 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	\$ 707,331	\$ 605,253
Interest	1,319,103	1,292,732
Difference between expected and actual experience	-	(1,524,294)
Changes of assumptions	-	109,127
Benefit payments, including refunds of member contributions	(895,743)	(1,030,013)
Net Change in Total Pension Liability	<u>1,130,691</u>	<u>(547,195)</u>
Total Pension Liability – Beginning	18,035,906	19,166,597
Total Pension Liability – Ending (a)	<u>\$ 19,166,597</u>	<u>\$ 18,619,402</u>
Plan Fiduciary Net Position		
Contributions – employer	\$ 1,340,004	\$ 1,212,328
Contributions – member	112,406	105,791
Net investment income	1,152,090	1,951,192
Benefit payments, including refunds of member contributions	(895,743)	(1,030,013)
Administrative expense	(51,642)	(55,547)
Net Change in Plan Fiduciary Net Position	<u>1,657,115</u>	<u>2,183,751</u>
Plan Fiduciary Net Position – Beginning	10,906,912	12,564,027
Plan Fiduciary Net Position – Ending (b)	<u>\$ 12,564,027</u>	<u>\$ 14,747,778</u>
Net Pension Liability – Ending (a-b)	<u>\$ 6,602,570</u>	<u>\$ 3,871,624</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	65.55%	79.21%
Estimated Covered Employee Payroll	\$ 2,590,516	\$ 2,512,197
Net Pension Liability as a Percentage of Covered Employee Payroll	254.87%	154.11%

WEST NORRITON 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 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	\$ 8,642,895	\$ 6,705,208	\$ 5,074,532
Net Pension Liability – 12/31/15	\$ 9,138,738	\$ 7,128,994	\$ 5,433,840
Net Pension Liability – 12/31/16	\$ 8,699,071	\$ 6,602,570	\$ 4,834,512
Net Pension Liability – 12/31/17	\$ 5,893,751	\$ 3,871,624	\$ 2,159,318

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	\$ 612,352	\$ 612,352	\$ -	\$ 2,372,844	25.81%
2012	640,507	640,507	-	2,511,607	25.50%
2013	768,734	768,734	-	2,733,071	28.13%
2014	788,038	788,038	-	2,904,910	27.13%
2015	952,976	952,976	-	2,829,774	33.68%
2016	1,340,004	1,340,004	-	2,590,516	51.73%
2017	1,212,328	1,212,328	-	2,512,197	48.26%
2018	1,051,544	1,051,544	-	*	*

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

WEST NORRITON 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	\$ 10,617,323	\$ 14,142,848	\$ 3,525,525	75.1%
01-01-15	11,850,116	17,019,369	5,169,253	69.6%
01-01-17	14,504,627	18,297,707	3,793,080	79.3%

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 POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
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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 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	11 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 POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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