

# COMPLIANCE AUDIT

---

## Lansdale Borough Non-Uniformed Pension Plan - Secondary Union Montgomery County, Pennsylvania For the Period January 1, 2013 to December 31, 2014

---

September 2015



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

The Honorable Mayor and Borough Council  
Lansdale Borough  
Montgomery County  
Lansdale, PA 19446

We have conducted a compliance audit of the Lansdale Borough Non-Uniformed Pension Plan - Secondary Union for the period January 1, 2013 to December 31, 2014. 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2009 to December 31, 2014, are presented on the Summary of Deposited State Aid and Employer Contributions.

- × 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 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 also tested individual employee contributions made during the audit period for all active employees employed during the audit period amounting to \$8,058 and \$8,082, for the years 2013 and 2014, respectively.
- × We determined that there were no benefit calculations prepared for the years covered by our audit period.
- × We determined whether the January 1, 2011 and January 1, 2013 actuarial valuation reports were prepared and submitted to the Public Employee Retirement Commission (PERC) by March 31, 2012 and 2014, 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.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lansdale Borough Non-Uniformed Pension Plan - Secondary Union 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 borough's internal controls as they relate to the borough'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 Lansdale Borough Non-Uniformed Pension Plan - Secondary Union 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 – Improper Loan Provision Contained In The Money Purchase Plan Agreement

The contents of this report were discussed with officials of Lansdale Borough and, where appropriate, their responses have been included in the report. We would like to thank borough officials for the cooperation extended to us during the conduct of the audit.

August 24, 2015



EUGENE A. DEPASQUALE  
Auditor General

## CONTENTS

	<u>Page</u>
Background.....	1
Finding and Recommendation:	
Finding - Improper Loan Provision Contained In The Money Purchase Plan Agreement ....	2
Summary of Deposited State Aid and Employer Contributions.....	3
Report Distribution List .....	4

## **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 Lansdale Borough Non-Uniformed Pension Plan - Secondary Union is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Lansdale Borough Non-Uniformed Pension Plan - Secondary Union is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1590. The plan is a supplementary defined contribution plan for the borough's non-uniformed union employees who are members of AFSCME District Council 88, AFL-CIO. The plan is also affected by the provisions of collective bargaining agreements between the borough and AFSCME District Council 88, AFL-CIO. The plan was established January 1, 1970. Active members are required to contribute 1 percent of wages to the plan. The municipality is required to contribute 4.5 percent of each member's wages. As of December 31, 2014, the plan had 19 active members, 5 terminated members eligible for vested benefits in the future, and 1 retiree receiving pension benefits.

LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN - SECONDARY UNION  
FINDING AND RECOMMENDATION

**Finding - Improper Loan Provision Contained In The Money Purchase Plan Agreement**

Condition: Section XI of the pension plan's money purchase plan agreement adopted January 11, 2012 improperly contains a provision that allows for loans to active plan members.

Criteria: Section 102 of Act 205 contains the following definitions:

“Pension plan or system.” The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

“Defined contribution pension plan.” A type of pension benefit plan which provides for a fixed contribution rate or amount and which provides for periodic benefit payments calculable at retirement dependent on the accumulated contributions, investment income, experience gains and losses credited to the member and the expected mortality of the member.

Therefore, Act 205 funding (state aid) is intended to provide retirement benefit payments, not for loans to be made to active plan members.

Cause: Plan officials were unaware of the loan provision and that it represented a condition of noncompliance in the plan agreement.

Effect: The unauthorized loan provision violates the intent of Act 205 to only provide distributions to plan members upon their retirement or termination of employment with the municipality.

Recommendation: We recommend that municipal officials take appropriate action to eliminate the unauthorized loan provision from the plan's governing document and to limit future distributions to those benefits authorized under Act 205.

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

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

LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN - SECONDARY UNION  
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2009	None	\$ 22,383
2010	None	26,166
2011	None	32,224
2012	None	35,752
2013	None	36,258
2014	None	24,626*

\* In 2014, the borough met the plan's \$36,370 funding requirement through the deposit of \$11,744 in terminated employee forfeitures and \$24,626 in employer contributions.

LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN - SECONDARY UNION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf  
Governor  
Commonwealth of Pennsylvania

Lansdale Borough Non-Uniformed Pension Plan - Secondary Union  
Montgomery County  
1 Vine Street  
Lansdale, PA 19446

The Honorable G. Andrew Szekely	Mayor
Mr. Leon Angelichio	Council President
Mr. Jake Ziegler	Borough Manager
Mr. Brian Shapiro	Finance Director

This report is a matter of public record and is available online at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us). 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@auditorgen.state.pa.us](mailto:news@auditorgen.state.pa.us).