

COMPLIANCE AUDIT

South Whitehall Township Non-Uniformed Employees' Defined Contribution Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2015 to December 31, 2016

August 2017



Commonwealth of Pennsylvania
Department of the Auditor General

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Board of Township Commissioners
South Whitehall Township
Lehigh County
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We have conducted a compliance audit of the South Whitehall Township Non-Uniformed Employees' Defined Contribution Pension Plan for the period January 1, 2015 to December 31, 2016. 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 findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.

- 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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 that there were no benefit calculations prepared for the years covered by our audit period.
- We determined whether the January 1, 2015 actuarial valuation report was prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2016, in accordance with Act 205 and whether selected information provided on this report 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 transfers were properly authorized, timely, and appropriately recorded by plan officials by examining supporting documentation for all of the transfers made during the audit period and through the completion of our fieldwork procedures.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the South Whitehall Township Non-Uniformed Employees' Defined Contribution 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 South Whitehall Township Non-Uniformed Employees' Defined Contribution 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 findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Failure To Timely Fund Members' Accounts

The contents of this report were discussed with officials of South Whitehall 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.

August 3, 2017



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 South Whitehall Township Non-Uniformed Employees' Defined Contribution 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 South Whitehall Township Non-Uniformed Employees' Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 991, as amended, for the township's non-uniformed, non-union employees hired after January 1, 2015. The plan was established December 17, 2014. Active members are not required to contribute to the plan. The municipality is required to contribute 6 percent of compensation. As of December 31, 2016, the plan had 8 active members.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' DEFINED
CONTRIBUTION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 - Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township failed to certify 2 eligible police officers (4 units), failed to certify 4 eligible non-uniformed employees' defined contribution plan members (4 units), and failed to certify 1 eligible non-uniformed office personnel plan member (1 unit) on the Certification Form AG 385 filed in 2016. The data contained on this certification form 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 this certification form 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 allocation was based on unit value, the township received an underpayment of state aid in the amount of \$39,375 as identified below:

Type Of Plan	Units Understated	Unit Value	State Aid Underpayment
Police	4	\$4,375	\$ 17,500
Non-Uniformed	5	\$4,375	21,875
		Total	\$ 39,375

Although the township will be reimbursed for the underpayment of state aid due to the township's certification errors, the full amount of the 2016 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plans' funding obligations.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' DEFINED
CONTRIBUTION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 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.

Finding No. 2 – Failure To Timely Fund Members' Accounts

Condition: In 2015 and 2016, plan officials did not timely fund the plan members' accounts by the December 31st deadline, as required by Act 205. The \$13,493 minimum municipal obligation (MMO) due to the non-uniformed employees' defined contribution pension plan for 2015 was deposited June 15, 2016. Furthermore, the \$23,975 MMO due to the non-uniformed employees' defined contribution pension plan for 2016 was deposited May 26, 2017; however plan officials failed to pay the interest due on the untimely deposits.

Criteria: Section 303(e) of Act 205 states, in part:

Any amount of the minimum municipal obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is made....

Cause: Plan officials failed to establish adequate internal control procedures to ensure the amounts due to the non-uniformed employees' defined contribution pension plan were remitted timely in accordance with Act 205 requirements.

Effect: Due to the township's failure to timely fund the plan, the township must now pay interest on the untimely contributions.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' DEFINED
CONTRIBUTION PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the municipality pay the interest due on the untimely deposits to the non-uniformed employees' defined contribution pension plan for the years 2015 and 2016, in accordance with Section 303(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

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.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' DEFINED
CONTRIBUTION PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2015	None	\$ 13,493
2016	None	23,975

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data were not yet available, this will be done prospectively.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED EMPLOYEES' DEFINED
CONTRIBUTION PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Christina Tori Morgan
President, Board of Township Commissioners

Mr. Glenn Block
Vice President, Board of Township Commissioners

Mr. David L. Bond
Assistant Secretary, Board of Township Supervisors

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Mr. Thomas J. Johns
Township Supervisor

Ms. Renee Bickel
Acting Township Manager

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