



**LOWER HEIDELBERG TOWNSHIP
NON-UNIFORMED PENSION PLAN**

BERKS COUNTY

COMPLIANCE AUDIT REPORT

FOR THE PERIOD

JANUARY 1, 2010 TO DECEMBER 31, 2012

COMMONWEALTH OF PENNSYLVANIA

EUGENE A. DEPASQUALE - AUDITOR GENERAL

DEPARTMENT OF THE AUDITOR GENERAL



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Lower Heidelberg Township
Berks County
Sinking Spring, PA 19608

We have conducted a compliance audit of the Lower Heidelberg Township Non-Uniformed Pension Plan for the period January 1, 2010 to December 31, 2012. 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 findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements. State aid allocations that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations. Employer contributions that were deposited into the pension plan for the years ended December 31, 2007 to December 31, 2012, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether employee contributions are required and, if so, are determined, deducted and deposited into the pension plan and are in accordance with the plan provisions and applicable laws and regulations.
- Whether benefit payments, if any, represent payments to all (and only) those entitled to receive them and are properly determined in accordance with applicable laws and regulations.
- Whether obligations for plan benefits are accurately determined in accordance with plan provisions and based on complete and accurate participant data; and whether actuarial valuation reports are prepared and submitted to the Public Employee Retirement Commission (PERC) in accordance with state law and 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.
- Whether transfers were properly authorized, accurate, timely and properly recorded.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Lower Heidelberg 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, 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 tests indicated that, in all significant respects, the Lower Heidelberg 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 findings further discussed later in this report:

- Finding No. 1 – Noncompliance With Prior Audit Recommendation - Failure To Properly Fund Members' Accounts
- Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

The contents of this report were discussed with officials of Lower Heidelberg 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.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke at the end.

November 6, 2013

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 Lower Heidelberg Township Non-Uniformed Pension Plan 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 Lower Heidelberg Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of a resolution effective January 1, 1986, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed employees. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's annual compensation. As of December 31, 2012, the plan had 6 active members.

LOWER HEIDELBERG TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Lower Heidelberg Township has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Failure To Properly Fund Members' Accounts

LOWER HEIDELBERG TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Failure To Properly Fund Members’ Accounts

Condition: As disclosed in the prior audit report, the township did not properly fund the accounts of 2 members in 2007, one of whom terminated employment on January 31, 2007, and was 60 percent vested in her account balance, and 2 members in 2008. In addition, the township did not properly fund the accounts of 4 members in 2011 and 1 member in 2012 as illustrated below:

<u>2007 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due/(Excess)</u>
1	\$ 277*	\$ -	\$ 277
2	4,888	5,133	<u>(245)</u>
		Total	<u>\$ 32</u>

* Represents 60 percent of the original contributions due to this employee since the employee is terminated and was 60 percent vested in her account balance.

<u>2008 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,333	\$ 704	\$ 629
2	6,020	5,500	<u>520</u>
		Total	<u>\$ 1,149</u>

<u>2011 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 2,561	\$ 2,491	\$ 70
2	9,486	9,067	419
3	5,434	5,290	144
4	6,654	6,516	<u>138</u>
		Total	<u>\$ 771</u>

LOWER HEIDELBERG TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

2012 Employees	Required Contributions	Actual Contributions	Contributions Due
1	\$ 4,733	\$ -	\$ 4,733

Criteria: The plan agreement with the plan’s custodian establishes the municipal contribution rate at 10 percent of annual payroll.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing document.

Effect: The failure to properly fund the members’ accounts could result in plan members receiving incorrect benefit payments upon reaching retirement benefit eligibility. Furthermore, due to the township’s failure to properly fund certain members’ accounts, the township must now pay interest on the delinquent contributions.

Recommendation: We again recommend that the township review the accounts of the affected plan members to ensure that they received their authorized contributions due from the township, with interest. A copy of the interest calculations should be maintained by the township for examination during our next audit of the plan.

We also recommend that township officials establish adequate internal control procedures to ensure the accounts of all plan members are properly funded.

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

LOWER HEIDELBERG TOWNSHIP NON-UNIFORMED PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: The township certified 1 ineligible non-uniformed employee (1 unit) and overstated payroll by \$23,173 on the Certification Form AG 385 filed in 2013. The data contained on this certification form is based on prior calendar year information.

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

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 incorrect certification of pension data affected the township’s state aid allocation, as identified below:

<u>Units</u> <u>Overstated</u>	<u>Unit</u> <u>Value</u>	<u>State Aid</u> <u>Overpayment</u>
1	\$ 3,884	\$ 3,884

Recommendation: We recommend that the total excess state aid, in the amount of \$3,884, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 320 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

We also 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.

LOWER HEIDELBERG TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2007	\$ 8,477	6,476
2008	7,877	10,785
2009	14,542	12,346
2010	None	28,426
2011	29,438	2,155
2012	5,348	17,640

Note: In 2011, the plan's \$33,589 funding requirement was partially met through the deposit of \$29,438 in state aid, \$1,226 in terminated employee forfeitures and \$2,155 in employer contributions. In 2012, the plan's \$30,426 funding requirement was partially met through the deposit of \$5,348 in state aid, \$2,706 in terminated employee forfeitures and \$17,640 in employer contributions. The outstanding contributions due for both years are discussed in Finding No. 1.

LOWER HEIDELBERG TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

Lower Heidelberg Township Non-Uniformed Pension Plan
Berks County
720 Brownsville Road
Sinking Spring, PA 19608

Ms. Cheryl Johnson Chairperson, Board of Township Supervisors

Ms. Diana Minnich Chief Administrative Officer

This report is a matter of public record and is available online at www.auditorgen.state.pa.us.
Media questions about the report can be directed to the Pennsylvania Department of the Auditor
General, Office of Communications, 231 Finance Building, Harrisburg, PA 17120; via email to:
news@auditorgen.state.pa.us.