

COMPLIANCE AUDIT

Haverford Township Non-Uniformed Defined Contribution Pension Plan Delaware County, Pennsylvania For the Period January 1, 2011 to December 31, 2013

August 2014



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
Haverford Township
Delaware County
Havertown, PA 19083

We have conducted a compliance audit of the Haverford Township Non-Uniformed Defined Contribution Pension Plan for the period January 1, 2012 to December 31, 2013. 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. Our methodology addressed determinations about the following:

- Whether state aid was properly determined and deposited in accordance with Act 205 requirements.
- 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, 2012 to December 31, 2013, 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 refunds are made to eligible members in accordance with the plan provisions and applicable laws and regulations.

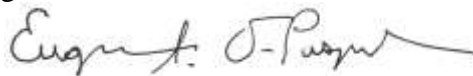
Haverford Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements which are available at the township's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Haverford Township Non-Uniformed 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, 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 tests indicated that, in all significant respects, the Haverford Township Non-Uniformed 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 finding further discussed later in this report:

Finding – Failure To Properly Fund Member Accounts

The contents of this report were discussed with officials of Haverford 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.



Eugene A. DePasquale
Auditor General

July 17, 2014

CONTENTS

	<u>Page</u>
Background	1
Finding and Recommendation:	
Finding – Failure To Properly Fund Member Accounts	2
Summary of Deposited State Aid and Employer Contributions	4
Report Distribution List	5

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 Haverford Township Non-Uniformed Defined Contribution 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 Haverford Township Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 2622-2010. 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, 2011, for all full-time non-uniformed employees hired on or after January 1, 2011. Active members were required to contribute 4 percent of gross salary in 2012 and 3 percent of gross salary in 2013 to the plan. The municipality was required to contribute 2 percent of gross salary in 2012 and 3 percent of gross salary in 2013 to each member who was employed on the last day of the plan year. As of December 31, 2013, the plan had 15 active members, no terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

HAVERFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Fund Member Accounts

Condition: The township did not fully fund the accounts of 7 members in 2013, as illustrated below:

<u>2013 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 1,100	\$ 804	\$ 296
2	921	482	439
3	1,298	840	458
4	1,771	1,441	330
5	1,123	734	389
6	1,029	673	356
7	843	107	736
		Total	<u>\$ 3,004</u>

Criteria: The plan’s governing document, Ordinance No. 2622-2010, Section 1.04 states:

“Compensation” shall mean all W-2 earnings paid by the Township to the Member during a Plan Year.

Section 1.15 states:

“Plan Year” shall mean a period of twelve (12) consecutive months commencing on any January 1st and ending on the following December 31st.

Section 2.02 states:

Any person who becomes an Employee after the Effective Date hereof shall become a Member on the last day of the Plan Year coincident with or next following completion of one-half year of Service.

Section 3.01 states, in part:

The township shall contribute, on behalf of each Member who was a Member on the last day of a Plan Year, an amount equal to the fixed percentage of his Compensation for such Plan Year....

HAVERFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: In 2013, plan officials only funded the accounts of new plan members for their compensation earned after the completion of 6 months of service.

Effect: The failure to properly fund the members' accounts could result in plan members being denied benefits to which they are entitled in accordance with the plan's governing document.

Furthermore, due to the township's failure to properly fund the accounts of several members, the township must now pay interest on the delinquent contributions.

Recommendation: We recommend that the township deposit the contributions due to the members' accounts for the year 2013, 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 in the future, plan officials establish adequate internal control procedures to ensure that all member accounts are properly funded.

Management's Response: Municipal officials agreed with the finding pertaining to the 2013 employer contributions due and will deposit the funds immediately. The reason for the shortage was a misunderstanding between the township and its pension advisor in regards to a township-prepared source document that the pension advisor used to prepare its calculation. The misunderstanding has been resolved and will not occur again in the future.

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

HAVERFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2012	None	\$ 7,025
2013	None	12,028

Note: In 2013, the township partially met the plan's \$17,293 funding requirement through the deposit of \$2,261 in terminated employee forfeitures and \$12,028 in employer contributions. See the Finding and Recommendation section of this audit report for an illustration of the total amount due for the year 2013.

HAVERFORD TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania

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Delaware County
2325 Darby Road
Havertown, PA 19083

Mr. Mario A. Oliva	President, Board of Township Commissioners
Mr. Lawrence J. Gentile	Township Manager
Ms. Aimee Cuthbertson	Finance Director

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.