

# COMPLIANCE AUDIT

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## Lansdale Borough Non-Uniformed Pension Plan - Primary Management

Montgomery County, Pennsylvania  
For the Period  
January 1, 2013 to December 31, 2014

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September 2015



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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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 - Primary Management 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 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, 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 - Primary Management 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 - Primary Management 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 – Incorrect Data On Certification Form AG 385 Resulting In An  
Overpayment Of State Aid

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 21, 2015



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 Lansdale Borough Non-Uniformed Pension Plan - Primary Management 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 - Primary Management is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 1586. The plan was established January 1, 1983. Active members are not required to contribute to the plan. The municipality is required to contribute 3 percent of the first \$18,000 of each member's wages plus 7 percent of any wages in excess of \$18,000. As of December 31, 2014, the plan had 20 active members, 2 terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN -  
 PRIMARY MANAGEMENT  
 FINDING AND RECOMMENDATION

**Finding - Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid**

Condition: The borough certified 6 ineligible union employees (6 units) and failed to certify 1 eligible union employee (1 unit) for a net overcertification of 5 units, and certified 2 management employees (2 units) and failed to certify 1 eligible management employee (1 unit) for a net overcertification of 1 unit on the Certification Form AG 385 filed in 2014. 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 borough's state aid allocation was based on unit value, the incorrect certification of pension data affected the borough's state aid allocation, as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Net Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2014	Primary Union	5	\$ 3,873	\$ 19,365
	Primary Management	1	3,873	<u>3,873</u>
Total Overpayment of State Aid				<u><u>\$ 23,238</u></u>

Furthermore, the borough's future state aid allocations may be withheld until the finding recommendation is complied with.

LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN -  
PRIMARY MANAGEMENT  
FINDING AND RECOMMENDATION

**Finding – (Continued)**

Recommendation: We recommend that the total overpayment of state aid, in the amount of \$23,238, 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.

Auditor's Conclusion: Due to the potential withhold of state aid, the borough's compliance with the finding recommendation will be monitored subsequent to the release of the audit report and through our next audit of the plan.

LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN -  
PRIMARY MANAGEMENT  
POTENTIAL WITHHOLD OF STATE AID

The finding contained in this audit report cites an overpayment of state aid to the borough in the amount of \$23,238. A condition of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, 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.

**LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN -  
 PRIMARY MANAGEMENT  
 SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS**

Year Ended December 31	State Aid	Employer Contributions
2009	None	\$ 56,034
2010	None	52,160
2011	None	61,697
2012	None	76,897
2013	None	79,850
2014	None	92,257

LANSDALE BOROUGH NON-UNIFORMED PENSION PLAN -  
PRIMARY MANAGEMENT  
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 - Primary Management  
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).