



**LYNN TOWNSHIP NON-UNIFORMED  
EMPLOYEES' PENSION PLAN**

**LEHIGH 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  
Lynn Township  
Lehigh County  
New Tripoli, PA 18066

We have conducted a compliance audit of the Lynn Township Non-Uniformed Employees' 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.
- Whether employer contributions are determined and deposited in accordance with the plan's governing document and applicable laws and regulations.
- 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 the terms of the unallocated insurance contract, including ownership and any restrictions, are in compliance with plan provisions, investment policies and state regulations.
- Whether benefit payments have only been made to living recipients, based on the Social Security numbers found in the pension records for retirees and beneficiaries.
- 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 Lynn Township Non-Uniformed Employees' 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.

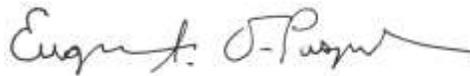
The results of our tests indicated that, in all significant respects, the Lynn Township Non-Uniformed Employees' Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Unauthorized Deposit Of State Aid

Finding No. 2 – Failure To Properly Determine And Pay The Minimum Municipal Obligation Of The Plan

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information or conclude on it and, accordingly, express no form of assurance on it.

The contents of this report were discussed with officials of Lynn 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

October 22, 2013

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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 Lynn Township Non-Uniformed Employees' 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 Lynn Township Non-Uniformed Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Resolution No. 2003-11. On June 9, 2011, the township adopted Resolution No. 2011-15 to freeze the defined benefit plan and provide a defined contribution plan going forward for the township's non-uniformed employees. The township is required to contribute 6 percent of each member's compensation to the defined contribution plan. As of December 31, 2012, the defined benefit pension plan had no active members, 15 members eligible for vested benefits in the future and 8 retirees receiving pension benefits.

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Lynn Township has complied with the prior audit recommendation concerning the following:

- Failure To Deposit The Full Amount Of State Aid Into The Pension Plan

The township deposited the \$629 balance of its 2009 state aid allocation into the pension plan.

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Unauthorized Deposit Of State Aid**

Condition: During the current audit period, the township adopted Resolution No. 2011-15 to freeze the defined benefit plan and provide a defined contribution plan going forward for the township's non-uniformed employees. However, the township established the defined contribution plan through an Internal Revenue Code Section 457 Deferred Compensation plan, which is not an eligible funding vehicle for pension plans participating in the state aid program. The township then proceeded to deposit state aid totaling \$25,033 into the unauthorized funding mechanism.

Criteria: Section 102 of Act 205 defines a pension plan as follows:

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.

Section 201.2 of Part IV of Title 16 of the Pennsylvania Code further elaborates on the definition included in Act 205, stating, in part:

The term does not include a plan, program, or arrangement that is funded solely by municipal employee earnings or compensation reported as municipal employee earnings or compensation to the Internal Revenue Service on the Form W-2 Wage and Tax Statement or established under sections 8.1-8.3 of the act of March 30, 1811 (P.L. 145 Sm.L. 228) (72 P.S. 4521.1-4521.3).

Cause: Municipal officials were not aware that deferred compensation plans were not eligible funding vehicles for pension plans participating in the state aid program.

Effect: Since the funding mechanism does not meet the definition of a pension plan as prescribed above, it is not eligible for participation in the state aid program.

Recommendation: We recommend that municipal officials either transfer the defined contribution plan's assets to an eligible funding mechanism or deposit \$25,033 to its eligible defined benefit pension plan. Furthermore, the township should not include members of the defined contribution pension plan on future Certification Forms AG 385 submitted to the Department if they continue to participate in the ineligible funding mechanism.

Management's Response: Municipal officials, along with the assistance of their investment advisor, plan to enact a qualified defined contribution pension plan that would be eligible to receive state aid.

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Auditor's Conclusion: Based on the management response, it appears municipal officials intend to comply with the finding recommendation. Compliance will be evaluated during our next audit of the plan.

**Finding No. 2 - Failure To Properly Determine And Pay The Minimum Municipal Obligation Of The Plan**

Condition: Plan officials did not properly determine or pay the minimum municipal obligation (MMO) of the non-uniformed employees' defined benefit pension plan for the year 2012, as required by Act 205. The MMO initially determined by the municipality was \$12,641 and understated the total amortization requirement by \$1,844. Therefore, the municipality had an unpaid MMO of \$14,485 for the year 2012.

Criteria: With regard to the MMO, Section 302(c) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the minimum obligation of the municipality with respect to the pension plan for the following plan year.

Section 302(d) of Act 205 states, in part:

The minimum obligation of the municipality shall be payable to the pension plan from the revenue of the municipality.

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum 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 paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – (Continued)**

Cause: Plan officials failed to establish adequate internal control procedures to ensure the plan's 2012 MMO was properly determined and paid in accordance with Act 205 requirements.

Effect: The proper determination of the plan's MMO ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

Due to the municipality's failure to pay the 2012 MMO by the December 31, 2012, deadline, the municipality must add the 2012 MMO to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the MMO due to the Non-Uniformed employees' defined benefit pension plan for the year 2012, with interest, in accordance with Section 302(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.

Furthermore, we recommend that in the future, plan officials properly determine and pay the plan's MMO in accordance with Act 205 requirements.

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

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2007, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-07	\$ 259,397	\$ 324,992	\$ 65,595	79.8%	\$ 129,379	50.7%
01-01-09	245,265	344,636	99,371	71.2%	274,126	36.3%
01-01-11	347,165	446,683	99,518	77.7%	289,579	34.4%

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. When assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2007	\$ 24,322	100.0%
2008	30,451	100.0%
2009	27,523	100.0%
2010	35,770	100.0%
2011	27,293	100.0%
2012	14,485	0%

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2011
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	11 years
Asset valuation method	Fair value
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	None assumed

LYNN TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Lynn Township Non-Uniformed Employees' Pension Plan  
Lehigh County  
7911 Kings Highway  
New Tripoli, PA 18066

Mr. Justin N. Smith            Chairman, Board of Township Supervisors

Ms. Tammy M. White        Secretary/Treasurer

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