COMPLIANCE AUDIT

East Earl Township Non-Uniformed Pension Plan

Lancaster County, Pennsylvania

For the Period

January 1, 2018 to December 31, 2021

October 2022

Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General

Commonwealth of Pennsylvania
Department of the Auditor General
Harrisburg, PA 17120-0018
Facebook: Pennsylvania Auditor General
Twitter: @PAAuditorGen
www.PaAuditor.gov

TIMOTHY L. DEFOOR
AUDITOR GENERAL

Board of Township Supervisors
East Earl Township
Lancaster County
East Earl, PA 17519

We have conducted a compliance audit of the East Earl Township Non-Uniformed Pension Plan for the period January 1, 2018 to December 31, 2021. We also evaluated compliance with some requirements subsequent to that period when possible. The audit was conducted pursuant to authority derived from the Municipal Pension Plan Funding Standard and Recovery Act (Act 205 of 1984, as amended, 53 P.S. § 895.402(j)), which requires the Auditor General, as deemed necessary, to audit every municipality which receives general municipal pension system state aid and every municipal pension plan and fund in which general municipal pension system state aid is deposited. The audit was not conducted, nor was it required to be, in accordance with Government Auditing Standards issued by the Comptroller General of the United States. We planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding 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 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. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior report, we inquired of plan officials and evaluated supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken. 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, 2016 to December 31, 2021, 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, 2016 to December 31, 2021, 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 whether retirement benefits calculated for plan members who retired or elected to vest and/or received a lump-sum distribution during the current audit period, and through the completion of our fieldwork procedures, represent payments to all (and only) those entitled to receive them and were properly determined and disbursed in accordance with the plan's governing document, applicable laws, and regulations by recalculating the amount of the pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.

- We determined whether the January 1, 2017, January 1, 2019, and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 2018, 2020, and 2022, 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.

Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the East Earl Township Non-Uniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described, we tested transactions, interviewed selected officials, and performed procedures to the extent necessary 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 procedures indicated that, in all significant respects, the East Earl 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 finding further discussed later in this report:

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Properly Determine A Vested Benefit Due An Eligible Member

The contents of this report were discussed with officials of East Earl 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.

Timothy L. DeFoor

Timothy L. DeFoor
Auditor General
September 28, 2022

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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.

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 East Earl Township Non-Uniformed Pension Plan is also governed by implementing regulations published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The East Earl Township Non-Uniformed Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 87-96, as amended. The plan was established January 1, 1996. Active members are not required to contribute to the plan. The municipality is required to contribute 15 percent of each participant's gross wages. As of December 31, 2021, the plan had 12 active members and 2 terminated members eligible for vested benefits in the future.

EAST EARL TOWNSHIP NON-UNIFORMED PENSION PLAN
STATUS OF PRIOR FINDING

Partial Compliance With Prior Recommendation

East Earl Township has partially complied with the prior recommendation concerning the following:

- Failure To Properly Determine A Vested Benefit Due An Eligible Member

  During the current audit period, the township properly distributed the remaining vested benefit to the previously disclosed eligible plan member. However, a similar condition occurred during the current audit period as further discussed in the Finding and Recommendation section contained in this report.

Finding – Partial Compliance With Prior Audit Recommendation – Failure To Properly Determine A Vested Benefit Due An Eligible Member

Condition: As disclosed in the Status of Prior Finding section of this report, the township partially complied with the prior recommendation by distributing the remaining vested benefit due the former plan member. However, a similar condition occurred during the current audit period. Plan officials again failed to properly determine a vested benefit due an eligible plan member who terminated employment in 2018 after accumulating 4 years of credited service and was entitled to a vested benefit equal to 60 percent of the member's accumulated account balance according to the plan document, prior to final liquidation of the terminated member's account.

Criteria: Article II, Section 8 of Ordinance No. 137-2006, states:

> A participant shall have a vested interest in the contribution made on his behalf by the Township according to his years of service to the Township in accordance with the following schedule:

Year Of Service	Percent Vested
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6	100%

> A Year of Service for vesting purposes is a calendar year in which an employee works at least 1000 hours. All years of employment are included when determining Years of Service for vesting purposes.

In addition, Sections 12 and 13 of Article II of the plan's governing document state:

> Cessation of a participant's employment by the Township prior to the normal retirement date for a reason other than death or total disability shall terminate the participant's membership in the plan, subject, however, to the participant's vested interest. Forfeitures of any amounts contributed by the township shall not act to increase the interest of the remaining participants but shall be credited towards current or succeeding years' contributions by the township.

Finding – (Continued)

> Former employees whose participation in the plan has ceased under Section 12, shall be entitled to receive, upon attaining the age of 59 ½, the total of all Township contributions to the plan, together with all earnings thereon as shown in the participant's account balance at the time of attaining the age of 59 ½ adjusting to the vesting schedule set forth in Section 8.

Cause: Plan officials again failed to implement adequate procedures to ensure the accuracy of calculated vested benefits and compliance with this department's prior recommendation.

Effect: The failure to adequately determine the vested pension benefit resulted in a terminated plan member not receiving the full vested benefit to which entitled according to the plan document. The former plan member was entitled to 60 percent of his accumulated account balance, which amounted to $14,498 at the date of separation, but only received $9,665 resulting in an underpayment to the individual in the amount of $4,833 which remains due the former plan member. In addition, the township liquidated the former member's entire account balance and used the remaining unvested portion of the terminated account to reduce contributions required by the township during 2019.

Recommendation: Since the funds from the terminated account were previously liquidated in total and used to fund the township's subsequent required contribution, we recommend that plan officials distribute the remaining vested benefit due the terminated participant *($4,833)* in accordance with the plan's governing document, from the township's general fund, accordingly.

We also again recommend that the township establish adequate procedures to properly determine future pension benefits, which include reviewing and verifying an employee's vesting service at the date of separation or termination, to ensure that future distributions to eligible plan members, including terminated-vested members and any resulting forfeitures available for crediting towards current or succeeding years' contributions by the township are in accordance with the provisions contained in the plan's governing document.

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.

EAST EARL TOWNSHIP NON-UNIFORMED PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	$ 59,185	$ 2,322
2017	53,740	17,934
2018	65,986	None
2019	65,803	18,498
2020	68,244	40,077
2021	64,448	39,130

Note: In 2018, the township met the plan’s $71,967 funding requirement through the deposit of $65,986 in state aid and the allocation of $5,981 in terminated employee forfeitures. In 2019, the township met the plan’s $101,118 funding requirement through the deposit of $65,803 in state aid, $18,498 in employer contributions and the allocation of $16,817 in terminated employee forfeitures.

EAST EARL TOWNSHIP NON-UNIFORMED PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Nelson R. Groff
Chairman, Board of Township Supervisors

Mr. Justin M. Sauder
Township Manager

Ms. Judy A. Muckle
Township Secretary/Treasurer

This report is a matter of public record and is available online at www.PaAuditor.gov. 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@PaAuditor.gov.