

# COMPLIANCE AUDIT

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## Easttown Township Non-Uniformed Defined Contribution Pension Plan Chester County, Pennsylvania For the Period January 1, 2015 to December 31, 2018

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July 2019



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 Supervisors  
Easttown Township  
Chester County  
Devon, PA 19333

We have conducted a compliance audit of the Easttown Township Non-Uniformed Defined Contribution Pension Plan for the period January 1, 2015 to December 31, 2018. 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, 2013 to December 31, 2018, 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 the plan member who terminated employment and/or retired and elected a lump-sum form of pension benefit during the current audit period 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 monthly pension benefit due to the retired individual and comparing this amount to supporting documentation evidencing the amount determined and actually paid to the recipient.
- We determined whether the January 1, 2013, January 1, 2015, and January 1, 2017 actuarial valuation reports were prepared and submitted by March 31, 2014, 2016, and 2018, 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.

Easttown Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements for the years ended December 31, 2015, 2016, and 2017, 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 Easttown 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 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 Easttown 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 Members’ Accounts

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

July 18, 2019



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 Easttown Township Non-Uniformed Defined Contribution Pension Plan is also governed by implementing regulations adopted by the former Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Easttown Township Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 08.16C.10. 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, 2010 for full-time non-uniformed non-union employees hired after January 10, 2010, and subsequently for full-time non-uniformed union employees hired on or after January 1, 2012. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of compensation for non-union employees, and 6 percent of base pay for union employees. As of December 31, 2018, the plan had 13 active members.

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

**Finding – Failure To Properly Fund Members’ Accounts**

Condition: During the current audit period, the township paid excess municipal contributions to the accounts of two plan members and did not fully fund the accounts of six members, as illustrated below:

2015:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
07/16/2013	\$ 14,189	\$ 14,756	\$ (567)
03/24/2014	9,768	9,884	(116)
		Total	<u>\$ (683)</u>

2016:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
05/23/2011	\$ 8,008	\$ 8,410	\$ (402)
02/20/2012	4,484	4,619	(135)
03/15/2016	2,876	2,438	438
05/31/2016	2,422	2,568	(146)
		Total	<u>\$ (245)</u>

2017:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
03/15/2016	\$ 4,494	\$ 3,519	\$ 975
05/31/2016	4,319	4,569	(250)
02/18/2017	3,502	3,704	(202)
06/19/2017	1,988	1,677	311
		Total	<u>\$ 834</u>

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

**Finding – (Continued)**

2018:

<u>Employee Hire Date</u>	<u>Actual Contributions</u>	<u>Required Contributions</u>	<u>Contributions In Excess (Due)</u>
03/15/2016	\$ 4,628	\$ 3,657	\$ 971
06/19/2017	4,526	3,657	869
		Total	<u>\$ 1,840</u>

Criteria: The plan’s governing document at Section 6.1(A), states, in part:

The Employer shall contribute on behalf of each Participant 10% of earnings.

The Collective Bargaining Agreement between the township and the Easttown Township Maintenance/Clerical Workers Association American Federation of State, County and Municipal Employees, AFL-CIO, District Council 88, Local 317-K, Article 9, states, in part:

Employees hired on or after January 1, 2012 shall participate in a defined contribution pension plan. The Township shall contribute six percent (6%) of an employee’s base pay into the defined contribution pension plan.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the plan members’ accounts were properly funded.

Effect: The failure to properly allocate contributions to the members’ accounts has resulted in certain plan members receiving benefits in excess of those to which they are entitled and other members being denied benefits to which they are entitled in accordance with the plan’s governing document.

Recommendation: We recommend that the township review the applicable members’ accounts and make the adjustments deemed necessary to ensure that they are funded in accordance with the provisions contained in the plan’s governing document.

We also recommend that plan officials implement adequate internal control procedures to ensure that the members’ accounts are properly funded in accordance with the provisions contained in the plan’s governing document.

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

**Finding – (Continued)**

Management's Response: Municipal officials agreed with the finding without exception and indicated that they will take appropriate action to comply with the recommendation upon receipt of the audit report.

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

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

Year Ended December 31	State Aid	Employer Contributions
2013	None	\$ 20,016
2014	None	9,382
2015	None	49,382
2016	None	46,549
2017	None	69,491
2018	None	63,872

Note: In 2014, the township met the plan's \$40,369 funding requirement through the deposit of \$30,987 in terminated employee forfeitures and \$9,382 in employer contributions. In 2016, the township substantially met the plan's \$54,108 funding requirement through the deposit of \$7,314 in terminated employee forfeitures and \$46,549 in employer contributions. In 2018, the township met the plan's \$80,008 funding requirement through the deposit of \$17,972 in terminated employee forfeitures and \$63,872 in employer contributions. See the Finding contained in this report.

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

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

**Ms. Betsy Fadem**  
Chairman, Board of Township Supervisors

**Mr. Christopher D. Polites**  
Vice-Chairman, Board of Township Supervisors

**Mr. James W. Oram, Jr.**  
Township Supervisor

**Mr. Karl A. Romberger, Jr.**  
Township Supervisor

**Mr. Marc J. Heppe**  
Township Supervisor

**Mr. Dan Fox**  
Township Manager

**Mr. William DeFeo**  
Finance Director

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