

COMPLIANCE AUDIT

Heidelberg Township Non-Uniformed Employees' Pension Plan

Lehigh County, Pennsylvania
For the Period
January 1, 2017 to December 31, 2021

May 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
Heidelberg Township
Lehigh County
New Tripoli, PA 18066

We have conducted a compliance audit of the Heidelberg Township Non-Uniformed Employees' Pension Plan for the period January 1, 2017 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 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 findings 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 findings 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 the plan member who separated employment and received a lump-sum distribution 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 pension benefits due to the retired individual and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipient.
- 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 Heidelberg Township Non-Uniformed Employees' 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 Heidelberg 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:

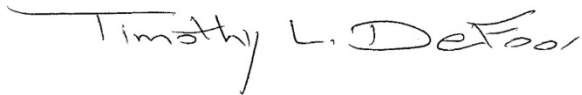
Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Finding No. 2 – Noncompliance With Prior Recommendation – Failure To Properly Fund Member Accounts

Finding No. 3 – Untimely Deposit Of State Aid

Finding Nos. 1 and 2 contained in this audit report repeat conditions that were cited in our previous report that have not been corrected by township officials. We are concerned by the township's failure to correct those previously reported findings and strongly encourage timely implementation of the recommendations noted in this audit report.

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

A handwritten signature in black ink that reads "Timothy L. DeFoor". The signature is written in a cursive style with a long horizontal line extending from the left.

Timothy L. DeFoor
Auditor General
April 25, 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 Heidelberg Township Non-Uniformed Employees' 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 Heidelberg Township Non-Uniformed Employees' Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution 2000-7, as amended. The plan was established January 1, 2000. Active members are not required to contribute to the plan. The municipality is required to contribute 10 percent of each member's compensation. As of December 31, 2021, the plan had six active members.

HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
STATUS OF PRIOR FINDINGS

Noncompliance With Prior Recommendations

Heidelberg Township has not complied with the prior recommendations concerning the following as further discussed in the Findings and Recommendations section of this report:

- Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Municipal officials again failed to establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data as further discussed in Finding No. 1 of this report; and

- Failure To Properly Fund Members' Accounts

Municipal officials again failed to deposit the outstanding contributions due to members' for 2015 and 2016, as further discussed in Finding No. 2 of this report. In addition, it was further noted that due to the township's failure to fund one of these members' accounts during 2016, the member is considered not participating in a pension plan during 2016, and therefore, deemed ineligible for certification on the Form AG 385 submitted during 2017 as further discussed in Finding No. 1 on this report.

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

**Finding No. 1 – Noncompliance With Prior Recommendation – Incorrect Data On
Certification Form AG 385 Resulting in An Overpayment Of State Aid**

Condition: As disclosed in the prior report, the township failed to establish adequate internal control procedures to ensure compliance with the instructions that accompanied Certification Form AG 385, resulting in an underpayment of state aid in the prior audit period. During the current period, a similar condition occurred. The township certified an ineligible non-uniformed employee (1 unit) and overstated payroll by \$36,940 on the Certification Form AG 385 filed in 2017. 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: The township failed to comply with the prior recommendation to fund the account of an individual who was hired in January 2016 and met the requirements for participation in the pension plan according to the plan's governing document (*refer to Finding No. 2 in this report*). However, without the required contribution, the employee was not deemed a participant in the pension plan during 2016 and therefore, was ineligible for certification during 2017 according to Act 205.

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 plan. Because the township's state aid allocation was based on pension costs, the incorrect certification of pension data affected the township's state aid allocation, as identified below:

<u>Normal Cost</u>	<u>Payroll Overstated</u>	<u>State Aid Overpayment</u>
9.000%	\$ 36,940	\$ 3,325

In addition, the township used the overpayment of state aid to pay the minimum municipal obligation (MMO) due to the non-uniformed pension plan; therefore, if the reimbursement to the Commonwealth is made from the pension plan, the plan's MMO will not be fully paid.

Recommendation: We recommend that the township comply with Finding No. 2 and fund the individual's account for 2016 or the excess state aid, in the amount of \$3,325, plus interest, 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, 321 Finance Building, Harrisburg, PA 17120. A copy of the interest calculation must be submitted along with the check.

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

Finding No. 1 – (Continued)

We also again recommend that in the future, plan officials establish adequate internal control procedures, such as having at least two 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.

In addition, if the reimbursement to the Commonwealth is made from non-uniformed pension plan funds, we recommend that any resulting MMO deficiency be paid to the pension plan with interest, at a rate earned by the pension plan.

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.

Finding No. 2 – Noncompliance With Prior Recommendation - Failure To Properly Fund Member Accounts

Condition: As disclosed in the prior report, the township did not fully fund the accounts of two plan members in 2015 and four plan members in 2016, as illustrated below:

<u>2015 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 5,182	\$ 4,675	\$ 507
2	3,921	3,665	256
		Total	<u>\$ 763</u>
<u>2016 Employees</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
1	\$ 5,498	\$ 5,304	\$ 194
2	4,389	4,264	125
3	3,693	3,640	53
4*	3,694	-	3,694
		Total	<u>\$ 4,066</u>

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

Finding No. 2 – (Continued)

** The 2016 contribution is required for this employee to be considered a participant in the pension plan. Since the township did not make that contribution, the employee is ineligible for inclusion on the AG 385 Certification submitted during 2017 (refer to Finding No. 1). If the township funds the individual's account accordingly, the employee will be deemed eligible for certification purposes and the township will not have to return the state aid disclosed in Finding No. 1.*

Criteria: As previously disclosed, for 2015, the plan's governing document, Resolution No. 2015-9, established the municipal contribution rate at 9 percent of gross compensation. For 2016, Resolution No. 2016-11 established the municipal contribution rate at 10 percent of gross compensation, which includes overtime pay.

Cause: Although township officials were made aware of their obligation to make contributions to employees' accounts to comply with this finding, the township did not have internal control procedures in effect to ensure the prior finding recommendation was complied with.

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 members, the township must now pay interest on the delinquent contributions and may be required to return state aid as disclosed in Finding No. 1 of this report.

Recommendation: We again recommend that the township deposit the contributions due to plan members for the years 2015 and 2016, with interest. A copy of the interest calculations should be maintained by the township for examination during our next engagement.

We also recommend that in the future, township officials properly fund the accounts of all eligible plan members in accordance with 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 engagement.

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

Finding No. 3 – Untimely Deposit Of State Aid

Condition: The municipality did not deposit its 2017, 2018 and 2020 state aid allocations into the pension plan within the 30-day grace period allowed by Act 205. The municipality received its 2017, 2018 and 2020 state aid allocations in the amounts of \$20,002, \$22,431 and \$28,397, on 9/27/2017, 9/20/2018 and 9/29/2020, respectively, but did not deposit these amounts into its non-uniformed pension plan until 11/27/2017, 11/5/2018 and 12/16/2020, respectively.

Criteria: Section 402(g) of Act 205 states, in part:

. . . the total amount of the general municipal pension system State aid received by the municipality shall, within 30 days of receipt by the treasurer of the municipality, be deposited in the pension fund or the alternate funding mechanism applicable to the pension plan.

Cause: The state aid was not deposited timely into the municipality's pension plan because internal control procedures were not in effect to ensure the timely deposit of state aid.

Effect: Although the state aid was eventually deposited into the plan, the interest earned beyond the 30-day grace period was not deposited into the plan. When state aid is not deposited into a pension plan account in a timely manner, the funds are not available to fund benefits, pay operating expenses or for investment and the risk of misapplication is increased.

Recommendation: We recommend that the municipality pay the non-uniformed pension plan the interest earned during the period beyond the 30 day grace period allowed by Act 205, compounded annually. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

We also recommend that plan officials develop and implement adequate internal control procedures to ensure that future state aid allocations are deposited timely in accordance with Act 205 requirements.

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.

HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2016	\$ 16,546	\$ 4,031
2017	20,002	2,271
2018	22,431	4,140
2019	27,495	458
2020	28,397	None
2021	27,738	2,358

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

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Steve Bachman
Chairman, Board of Township Supervisors

Ms. Janice M. Meyers
Township Administrator/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.