

# COMPLIANCE AUDIT

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## Heidelberg Township Police Pension Plan Berks County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

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June 2021



Commonwealth of Pennsylvania  
Department of the Auditor General

Timothy L. DeFoor • Auditor General

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**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  
Berks County  
Robesonia, PA 19551

We have conducted a compliance audit of the Heidelberg Township Police Pension Plan for the period January 1, 2017 to December 31, 2020. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings 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.
- 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, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2018, and 2020, 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.

Heidelberg Township contracted with an independent certified public accounting firm for annual audits of its basic financial statements 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.

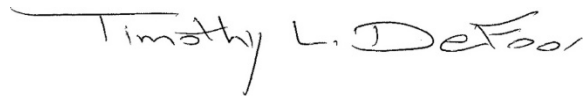
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Heidelberg Township Police Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances 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 objective.

The results of our procedures indicated that, in all significant respects, the Heidelberg Township Police 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 – Awarding Of Professional Services Contract Inconsistent With Provisions Of Act 44 Of 2009
- Finding No. 2 – Pension Benefit Payments Made To Ineligible Individual

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 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 to the left of the first letter.

Timothy L. DeFoor  
Auditor General

June 9, 2021

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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 Police 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 including, but not limited to, the following:

Act 600 - Police Pension Fund Act, Act of May 29, 1956 (P.L. 1804, No. 600), as amended, 53 P.S. § 767 et seq.

The Heidelberg Township Police Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance No. 156, as amended, and a separately executed plan agreement with the plan's custodian, adopted pursuant to Act 600. The plan was established October 26, 1978. Effective December 29, 2016, plan participation has been frozen for new police officers who will participate in a defined contribution pension plan. As of December 31, 2020, the plan had no active members, 1 terminated member eligible for vested benefits in the future, and 1 retiree receiving pension benefits.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Awarding Of Professional Service Contract Inconsistent With Provisions  
Of Act 44 Of 2009**

**Condition:** Municipal officials have not adopted the mandatory Act 44 provisions regarding professional services contracts. During the prior audit, a verbal observation was issued to plan officials notifying them of the passage of Act 44 of 2009 and recommending that the township adopt the mandatory Act 44 provisions. In 2019, the township changed investment, and advisory services contractors for its police and non-uniformed pension plans. However, there was no evidence provided to support that the change was conducted in accordance with Act 44 and that the solicitation for the proposed change in providers was approved by the township supervisors.

**Criteria:** Section 701-A of Act 205, as amended by Act 44, defines a “Professional Services Contract”, as follows:

“Professional services contract.” A contract to which the municipal pension system is a party that is:

- (1) for the purchase or provision of professional services, including investment services, legal services, real estate services and other consulting services; and not subject to a requirement that the lowest bid be accepted.

In addition, Section 702-A (a) of Act 205 states in part:

Each municipal pension system ... shall develop procedures to select the most qualified person to enter into a professional services contract. The procedures shall ensure that the availability of a professional services contract is advertised to potential participants in a timely and efficient manner. Procedures shall include applications and disclosure forms to be used to submit a proposal for review and to receive the award of a professional services contract

Additionally, Section 702-A (c), (e), (f) and (h) state, in part:

**Review.** Procedures to select the most qualified person shall include a review of the person’s qualifications, experience and expertise and the compensation to be charged.

**Conflict of interest.** The municipal pension system shall adopt policies relating to potential conflicts of interest in the review of a proposal or the negotiation of a contract.

**Public information.** Following the award of a professional services contract, all applications and disclosure forms shall be public except for proprietary information or other information protected by law.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

**Notice and summary.** The relevant factors that resulted in the award of the professional services contract must be summarized in a written statement to be included in or attached to the documents awarding the contract. Within ten days of the award of the professional services contract, the original application, a summary of the basis for the award and all required disclosure forms must be transmitted to all unsuccessful applications and posted on the municipal pension system's Internet website, if an Internet website is maintained, at least seven days prior to the execution of the professional services contract.

Section 703-A (c) states in part:

Upon advertisement for a professional services contract by the municipal pension system, the contractor may not cause or agree to allow a third party to communicate with officials or employees of the municipal pension system except for requests for technical clarification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with Act 44 and the prior recommendation.

Effect: The township's failure to comply in all respects with the provisions stipulated in Act 44 regarding the procurement of professional investment and advisory services for the township's pension plan denoted a general lack of overall transparency of the actions taken by plan officials relative to the awarding of the contract for investment and advisory services for the township's pension plan.

Recommendation: We recommend that municipal officials obtain a comprehensive understanding of Act 44 and develop and implement procedures for the procurement of professional services for the pension plan to ensure compliance with provisions of Act 44 which include maintaining appropriate and sufficient supporting documentation evidencing every phase of the process in the awarding of future professional services contracts for the pension plan including authorizations/approvals of township officials in the official minutes of formal board meetings and especially required notifications and disclosures to ensure transparency of the actions taken by plan officials relative to the awarding of the professional services contracts for the township's 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.



HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

**Finding No. 2 – Pension Benefit Payments Made To Ineligible Individual**

Condition: The township made improper monthly pension benefit payments from the police pension plan to the survivor of a deceased retiree. According to records provided by the township, the former retired member received a time certain benefit (120 months) in the amount of \$495 in addition to his regularly monthly pension benefit, which should have ceased with the July 1, 2020 benefit payment; but instead, continued through the date of this report.

Criteria: Procedures to monitor the continued eligibility of individuals receiving pension benefits is a prerequisite for the sound administration of pension plans and ensures that each eligible individual receives only the benefits to which entitled.

Cause: The township lacked adequate internal control procedures to timely detect and stop the time-certain portion of the survivor’s benefit.

Effect: The township made improper pension benefit payments from the police pension plan in the amount of \$5,445 as of the date of this report.

Recommendation: We recommend that the township limit subsequent benefit payments to the recipient to those authorized by the plan document/agreement. We also recommend that the pension plan be reimbursed for the excess payments made after July 1, 2020 (\$5,445 as of the date of this report) through the date the excess benefits cease. Furthermore, we recommend that the township develop and implement adequate internal control procedures to effectively monitor the continued eligibility of individuals receiving pension benefits from the plan and timely detect and discontinue payments to ineligible benefit recipients, accordingly.

Management’s Response: Municipal officials agreed with the finding without exception and indicated that they are in the process of contacting the individual and eliminating the excess pension payments.

Auditor’s Conclusion: Compliance with the aforementioned recommendations will be evaluated during our next audit of the plan.

HEIDELBERG TOWNSHIP POLICE 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, 2015, is as follows:

	(1)	(2)	(3)	(4)
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)
01-01-15	\$ 267,685	\$ 237,377	\$ (30,308)	112.8%
01-01-17	257,124	181,499	(75,625)	141.7%
01-01-19	245,289	186,124	(59,165)	131.8%

Note: The market value of the plan's assets at 01-01-15 has been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period, which will be limited to a maximum of 110 percent and a minimum of 90 percent of the fair market value of assets. This method will lower contributions in years of less than expected returns and increase contributions in years of greater than expected returns. The net effect over long periods of time is to have less variance in contribution levels from year to year.

HEIDELBERG TOWNSHIP POLICE 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.

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
 AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2015	\$ 20,619	100.0%
2016	9,389	100.0%
2017	5,169	100.0%
2018	None	N/A
2018	None	N/A
2020	None	N/A

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the 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, 2019
Actuarial cost method	Entry age normal
Amortization method	N/A
Remaining amortization period	N/A
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	6.0%
Cost-of-living adjustments	None assumed

HEIDELBERG TOWNSHIP POLICE PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

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

**Mr. David Randler**  
Chairman, Board of Township Supervisors

**Mr. Kevin Snyder**  
Vice Chairman, Board of Township Supervisors

**Mr. David Manbeck**  
Township Supervisor

**Mr. Thomas Schoener**  
Township Supervisor

**Mr. Terry Wolfe**  
Township Supervisor

**Ms. Nicole Werner**  
Township Secretary

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