COMPLIANCE AUDIT

London Grove Township Non-Uniformed 401(a) Pension Plan

Chester County, Pennsylvania

For the Period
January 1, 2020 to December 31, 2022

June 2023

TIMOTHY L. DeFOOR • AUDITOR GENERAL •

Commonwealth of Pennsylvania
Department of the Auditor General

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TIMOTHY L. DEFOOR
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Board of Township Supervisors
London Grove Township Non-Uniformed 401(a) Pension Plan
Chester County
West Grove, PA 19390

We have conducted a compliance audit of the London Grove Township Non-Uniformed 401(a) Pension Plan for the period January 1, 2020 to December 31, 2022. 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2020, to December 31, 2022, 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, 2020, to December 31, 2022, 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 benefits calculated for plan members 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 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, 2021, actuarial valuation report was prepared and submitted by March 31, 2022, in accordance with Act 205 and whether selected information provided on this report 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 London Grove Township Non-Uniformed 401(a) 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 London Grove Township Non-Uniformed 401(a) 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 – Failure To Properly Fund Member Accounts

Finding No. 2 – Allocation Of State Aid In Excess Of Entitlement

Finding No. 3 – Improper Vesting Distribution

The contents of this report were discussed with officials of London Grove Township Non-Uniformed 401(a) Pension Plan 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
May 15, 2023

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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 two (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 London Grove Township Non-Uniformed 401(a) 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 London Grove Township Non-Uniformed 401(a) Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Resolution No. 797, and a separately executed plan agreement, effective January 1, 2022. Prior to January 1, 2022, the plan was locally controlled by the provisions of Resolution No. 736 and a separately executed plan agreement. The plan was established January 6, 2020. Active members are not required to contribute to the plan. The municipality is required to contribute three (3.0) percent of each participant's total compensation. As of December 31, 2022, the plan had 13 active members. 2 terminated members eligible for vested benefits in the future, and no retirees receiving pension benefits.

Finding No. 1 – Failure To Properly Fund Member Accounts

Condition: The township did not properly fund the accounts of 10 members during 2020, 6 members during 2021, and 4 members during 2022 in the amounts of $578, $835, and $1,009, respectively, as illustrated below:

2020 Employees	Required Contributions	Actual Contributions	Contributions Due (In Excess)
1	$ 2,741	$ 2,644	$ 97
2	4,430	4,280	150
3	1,663	1,609	54
4	1,494	1,441	53
5	2,349	2,266	83
6	2,692	2,661	31
7	1,137	1,121	16
8	2,179	2,158	21
9	1,164	1,251	(87)
10	160	-	160
		Total	$ 578

2021 Employees	Required Contributions	Actual Contributions	Contributions (In Excess)
1	$ 4,561	$ 4,711	$ (150)
2	3,443	3,809	(366)
3	2,312	2,429	(117)
4	1,540	1,647	(107)
5	2,653	2,718	(65)
6	1,282	1,312	(30)
		Total	$ (835)

2022 Employees	Required Contributions	Actual Contributions	Contributions Due
1	$ 484	$ 281	$ 203
2	737	591	146
3	755	672	83
4	1,471	895	577
		Total	$ 1,009

Finding No. 1 – (Continued)

Criteria: The plan's governing document, Resolution No. 736 of 2020, *(later amended by Resolution No. 797 of 2022)* adopted a separately executed plan agreement with the plan's custodian, which established the municipal contribution rate at three (3) percent of each participant's Total Compensation *(W-2 Wages)*.

Cause: The plan was recently established in 2020 but the township failed to implement adequate internal control procedures to ensure that members' accounts were consistently funded in accordance with provisions in the plan's governing document. In 2021, there was a clerical error and the contributions intended for the township's non-participating 457 deferred compensation plan were inadvertently deposited into this plan and vice versa. During 2022, new plan members were not timely identified and/or entered into the plan along with their applicable required contributions.

Effect: The failure to properly fund members' accounts resulted in plan members receiving benefits in excess or 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 its members, the township must now pay interest on the delinquent contributions and/or consider whether excess contributions require adjustment.

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

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 – Allocation Of State Aid In Excess Of Entitlement

Condition: In 2022, the township allocated state aid to the non-uniformed pension plan in excess of the plan's defined contribution pension costs under Act 205, as illustrated below:

State aid allocation	$ 30,197
Forfeiture available	1,513
Actual municipal pension costs	(31,224)
Excess state aid	$ 486

Regarding forfeitures, the separately executed plan agreement adopted by restated Resolution No. 797, did not specify how forfeitures were to be applied (i.e., no selection was made by the township from the varying options offered under Section 8-07 of the adoption agreement); therefore, forfeitures should be used to offset municipal contributions.

Criteria: Section 402(f)(2) of Act 205 states:

> No municipality shall be entitled to receive an allocation of general municipal pension system state aid in an amount which exceeds the aggregate actual financial requirements of any municipal pension plan for police officers, paid firefighters or employees other than police officers or paid firefighters maintained by the municipality, less the amount of any aggregate annual member or employee contributions during the next succeeding plan year, as reported in the most recent complete actuarial report filed with the commission.

Cause: Plan officials were unaware of plan forfeitures or the need to annually reconcile the amount of state aid allocated to the pension plan, along with available plan forfeitures with the plan's actual defined contribution pension costs.

Effect: It is this department's opinion that, since the entire proceeds of the insurance premium tax on foreign casualty insurance companies are distributed annually to each eligible recipient municipality, it is inappropriate to use state aid in one year to offset pension costs in other years; however, the township does have the option to allocate the excess state aid to its defined benefit pension plan.

Finding No. 2 – (Continued)

Recommendation: We recommend that municipal officials, *after making any necessary adjustments to members' accounts as recommended in Finding No. 1*, re-allocate any remaining excess state aid allocated to this plan to the township's defined benefit pension plan.

In addition, we recommend that municipal officials review Section 8-07 of the plan agreement and make an appropriate selection from the options provided by the custodian to ensure forfeitures are handled accurately and consistently in the future, in accordance with the township's intended structure of the plan.

Furthermore, we recommend that, in the future, municipal officials implement consistent procedures to reconcile the amount of annual state aid allocated to the pension plan, along with available forfeitures, with the pension plan's actual annual defined contribution pension costs.

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. 3 – Improper Vesting Distribution

Condition: An employee terminated in 2021 after accumulating two years of credited service according to municipal records; however, the individual did not receive a distribution in accordance with the plan document.

Criteria: Section 8.2 of the separately executed plan agreement adopted by Resolution No. 736 includes the following Vesting Schedule for Employer Contributions and Matching Contributions:

0% immediately on Plan participation
20% after 1 Year of Service
40% after 2 Years of Service
60% after 3 Years of Service
80% after 4 Years of Service
100% after 5 Years of Service

In addition, Section 8.5, defines Year of Service, as follows:

> An Employee earns a Year of Service for vesting purposes upon completing 1,000 Hours of Service during a Vesting Computation Period. Hours of Service are calculated based on actual hours worked during the Vesting Computation Period.

Finding No. 3 – (Continued)

Therefore, pursuant to the above schedule, the aforementioned employee was entitled to a distribution in the amount of 40 percent of the accumulated account balance according to the plan document.

Cause: Township officials failed to establish adequate internal control procedures to ensure the plan's custodian remitted the correct payment to the terminated employee.

Effect: The former employee received a benefit underpayment in the amount of $1,008.

Recommendation: We recommend that the township distribute the additional vested portion of the member's account, plus interest, to the former member before liquidating any remaining balance in its forfeiture account.

We also recommend that municipal officials implement procedures to ensure that future distributions made from the plan are in accordance with the provisions contained in the plan's governing document.

Management's Response: Municipal officials agreed with the finding without exception and indicated that they initiated contact with the plan custodian to distribute the funds to the former employee.

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

LONDON GROVE TOWNSHIP Non-Uniformed 401(a) PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2020	None	$ 22,987
2021	$ 6,903	20,167
2022	30,197	None

Notes: In 2020, the township did not meet the plan's $23,565 funding requirement as disclosed in *Finding No. 1*. In 2022, the township did not meet the plan's $31,224 funding requirement with available plan forfeitures *(refer to Finding No. 1)* and resulted in the excess state aid disclosed in *Finding No. 2*.

The Department typically presents this data for the past six consecutive fiscal years. Since six years of data was not yet available, this will be done prospectively.

LONDON GROVE TOWNSHIP Non-Uniformed 401(a) PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Joshua D. Shapiro
Governor
Commonwealth of Pennsylvania

Mr. Steve Zurl
Council President

Mr. Kenneth Battin
Township Manager

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.