

COMPLIANCE AUDIT

North Londonderry Township Non-Uniformed Defined Contribution Pension Plan Lebanon County, Pennsylvania For the Period January 1, 2017 to December 31, 2020

October 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

Board of Township Supervisors
North Londonderry Township
Lebanon County
Lebanon, PA 17078

We have conducted a compliance audit of the North Londonderry Township Non-Uniformed Defined Contribution 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. Employer contributions that were deposited into the pension plan for the years ended December 31, 2017 to December 31, 2020, are presented on the Summary of Deposited State Aid and Employer Contributions.
- We determined whether annual employee contributions were calculated, deducted, and deposited into the pension plan in accordance with the plan's governing document and applicable laws and regulations by testing total members' contributions on an annual basis using the rates obtained from the plan's governing document in effect for all years within the period under audit and examining documents evidencing the deposit of these employee contributions into the pension plan. We also tested individual employee contributions for all 9 active employees employed during the audit period amounting to \$6,457, \$9,909, \$12,041, and \$12,811, for the years 2017, 2018, 2019, and 2020, respectively, made during the audit period.
- We determined whether retirement benefits calculated for plan members who separated employment and 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 comparing these amounts to supporting documentation evidencing amounts determined and actually paid to the recipients.
- 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.

North Londonderry 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 North Londonderry Township Non-Uniformed Defined Contribution Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. As previously described,

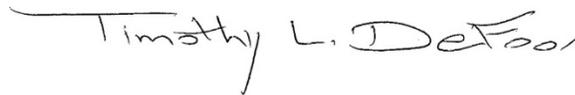
we tested transactions, interviewed selected officials, and performed procedures to the extent necessary to provide reasonable assurance of detecting instances of noncompliance with legal and regulatory requirements or noncompliance with provisions of contracts, administrative procedures, and local ordinances and policies that are significant within the context of the audit objective.

The results of our procedures indicated that, in all significant respects, the North Londonderry 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 findings further discussed later in this report:

Finding No. 1 – Failure To Properly Fund Member Accounts

Finding No. 2 – Improper Vesting Distribution

The contents of this report were discussed with officials of North Londonderry 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.

October 4, 2021

Timothy L. DeFoor
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.

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 North Londonderry 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 North Londonderry Township Non-Uniformed Defined Contribution Pension Plan is a single-employer defined contribution pension plan locally controlled by the provisions of Ordinance No. 178, as amended, for non-uniformed employees hired on or after August 1, 2015. The plan was established January 1, 1984. Active members are required to contribute 5 percent of base salary to the plan. The municipality is required to contribute 10 percent of base salary. As of December 31, 2020, the plan had six active members.

NORTH LONDONDERRY TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Failure To Properly Fund Member Accounts

Condition: The township did not fully fund the account of 1 plan member in 2017 in the amount of \$466 and 1 member in 2019 in the amount of \$1,520, as illustrated below:

<u>Year</u>	<u>Employee</u>	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Contributions Due</u>
2017	1	\$ 466	\$ -	\$ 466
2019	2	3,548	2,028	1,520

Criteria: The plan’s governing document, Ordinance No. 179, at Section 11.4(b) states, in part:

Employer contributions shall be allocated as of each allocation date among the Employer Contribution Participant Accounts of eligible Participants in the amount of ten (10%) percent of the Base salary that was paid to each such participant since the previous allocation date.

Cause: Plan officials failed to establish adequate internal control procedures to ensure that the eligible plan members’ accounts were properly funded in accordance with the provisions contained in the plan’s governing documents.

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 two members, the township must now pay interest on the delinquent contributions.

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 the future 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.

NORTH LONDONDERRY TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Improper Vesting Distribution

Condition: One plan member terminated in 2019 and one member terminated subsequent to the audit period in 2021, each with 1 year of vesting service (10% vested); however, the employees received only a distribution of their employee contributions.

Criteria: Ordinance No. 179, Section 11.5 Vesting, states, in part:

Participants completing one or more Years of Service shall be vested in his Employer Contribution Participant Account in accordance with the following vesting schedule set forth below:

<u>Years of Vesting Service</u>	<u>Vesting Percentage</u>
0	0%
1	10%
2	20%
3	30%
4	40%
5	50%
6	60%
7	70%
8	80%
9	90%
10 or More Years	100%

A Participant shall be 100% vested in his Employee Pre-Tax and Post-Tax Contribution Accounts.

Pursuant to the above schedule, the terminated employees were each entitled to a distribution in the amount of 10 percent of their Employer Contribution Participant Accounts, in addition to 100 percent of their employee contribution accounts.

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

Effect: The terminated employees did not receive the plan benefits to which they were entitled pursuant to the provisions contained in the plan’s governing document.

NORTH LONDONDERRY TOWNSHIP NON-UNIFORMED DEFINED CONTRIBUTION
PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Recommendation: We recommend that the township pay the terminated employees the vested portion of their Employer Contribution Participant Accounts pursuant to the provisions contained in the plan's governing document.

We also recommend that municipal officials monitor future distributions made from the plan to ensure they 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.

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

Year Ended December 31	State Aid	Employer Contributions
2017	None	\$ 12,524
2018	None	19,656
2019	None	22,563
2020	None	15,422

Note: In 2020, the township met the plan's \$25,621 funding requirement through the deposit of \$15,422 in employer contributions and the allocation of \$10,199 in terminated employee forfeitures.

NORTH LONDONDERRY 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

Mr. Ronald E. Fouche
Chairman, Board of Township Supervisors

Mr. Barry D. Riegle
Vice-Chairman, Board of Township Supervisors

Mr. William C. Buckfelder
Township Supervisor

Mr. Michael D. Booth
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Ms. Lisa M. Daubert
Township Secretary

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