

COMPLIANCE AUDIT

South Whitehall Township Non-Uniformed Public Works Union Employees' Pension Plan Lehigh County, Pennsylvania For the Period January 1, 2017 to December 31, 2019

March 2021



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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**TIMOTHY L. DEFOOR
AUDITOR GENERAL**

The Board of Township Commissioners
South Whitehall Township
Lehigh County
Allentown, PA 18104

We have conducted a compliance audit of the South Whitehall Township Non-Uniformed Public Works Union Employees' Pension Plan for the period January 1, 2017 to December 31, 2019. 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 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.
- 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 determined whether retirement benefits calculated for the plan members who retired and elected to vest 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 recalculating the amount of the monthly pension benefits due to the retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid and payable to the recipients.
- We determined whether the January 1, 2015, January 1, 2017, and January 1, 2019 actuarial valuation reports were prepared and submitted by March 31, 2016, 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.

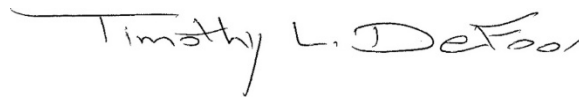
Township officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the South Whitehall Township Non-Uniformed Public Works Union Employees' Pension Plan is administered in compliance with applicable state laws, regulations, contracts, 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 objective.

The results of our procedures indicated that, in all significant respects, the South Whitehall Township Non-Uniformed Public Works Union 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 finding further discussed later in this report:

Finding – Failure To Properly Determine And Fully Pay The Minimum
Municipal Obligation Of The Plan

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 South Whitehall 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

February 19, 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 South Whitehall Township Non-Uniformed Public Works Union 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 South Whitehall Township Non-Uniformed Public Works Union Employees' Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of Ordinance 448, as amended. The plan is also affected by the provisions of collective bargaining agreements between the township and its non-uniformed public works employees. The plan was established December 31, 1967. Active members are required to contribute 1 percent of compensation to the plan. As of December 31, 2019, the plan had 19 active members, 9 terminated members eligible for vested benefits in the future, and 25 retirees receiving pension benefits.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED PUBLIC WORKS UNION
EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Failure To Properly Determine And Fully Pay The Minimum Municipal Obligation Of The Plan

Condition: Plan officials did not properly determine or fully pay the minimum municipal obligation (MMO) of the non-uniformed public works union employees' pension plan for the year 2019, as required by Act 205. The municipality understated the amortization component of its 2019 MMO; and as a result, based upon an estimate prepared by this department, the municipality had an outstanding MMO due the plan amounting to \$164,237, for the year 2019.

Criteria: With regard to the MMO, Section 302(b)(1) of Act 205 states, in part:

Annually, the chief administrative officer of the pension plan shall determine the financial requirements of the pension plan for the following plan year. The financial requirements of the pension plan for the following plan year shall be based on the most recent actuarial valuation report of the pension plan prepared pursuant to Chapter 2. Unless the assets of the pension plan equal the present value of future benefits as reported pursuant to section 202(b)(2), the financial requirements of the pension plan shall be the normal cost and administrative expense requirements for the following plan year and, if the pension plan has an unfunded actuarial accrued liability pursuant to the most recent actuarial valuation report, the amortization contribution requirement for the following plan year...

Furthermore, Section 302(e) of Act 205 states:

Any amount of the minimum obligation of the municipality which remains unpaid as of December 31 of the year in which the minimum obligation is due shall be added to the minimum obligation of the municipality for the following year, with interest from January 1 of the year in which the minimum obligation was first due until the date the payment is paid at a rate equal to the interest assumption used for the actuarial valuation report or the discount rate applicable to treasury bills issued by the Department of Treasury of the United States with a six-month maturity as of the last business day in December of the plan year in which the obligation was due, whichever is greater, expressed as a monthly rate and compounded monthly.

Cause: Plan officials did not comply with the Act 205 requirements because of a documentation error.

Effect: The proper determination of the plan's MMO using the most recent actuarial valuation report ensures plan officials can properly allocate the necessary resources to the pension plan for the upcoming year. The failure to fully pay the MMO could result in the plan not having adequate resources to meet current and future benefit obligations to its members.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED PUBLIC WORKS UNION
EMPLOYEES' PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Due to the municipality's failure to fully pay the 2019 MMO by the December 31, deadline, the municipality must add the 2019 MMO outstanding balance to the current year's MMO and include interest, as required by Act 205.

Recommendation: We recommend that the municipality pay the outstanding MMO due to the non-uniformed public works union employees' pension plan for the year 2019, with interest, in accordance with Section 302(e) of Act 205. A copy of the interest calculation must be maintained by the township for examination during our next audit of the plan.

Furthermore, we recommend that, in the future, plan officials properly determine and fully pay the MMO due the plan in accordance with Act 205.

Management's Response: Township officials agreed with the finding without exception.

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

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED PUBLIC WORKS UNION
 EMPLOYEES' 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	\$ 7,204,322	\$ 8,812,149	\$ 1,607,827	81.8%
01-01-17	8,162,784	10,570,618	2,407,834	77.2%
01-01-19	8,806,059	11,533,352	2,727,293	76.4%

Note: The market values of the plan's assets at 01-01-17, and 01-01-19 have been adjusted to reflect the smoothing of gains and/or losses over a 5-year averaging period. 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.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED PUBLIC WORKS UNION
EMPLOYEES' 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.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED PUBLIC WORKS UNION
EMPLOYEES' PENSION PLAN
SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CONTRIBUTIONS

Year Ended December 31	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered- Employee Payroll*	Contributions as a Percentage of Covered- Employee Payroll
2010	\$ 246,918	\$ 246,918	\$ -	\$ -	-
2011	330,891	330,891	-	-	-
2012	334,286	334,286	-	-	-
2013	432,580	432,580	-	-	-
2014	432,878	452,470	(19,592)	1,790,358	25.27%
2015	456,874	456,902	(28)	1,777,401	25.71%
2016	433,934	433,934	-	1,781,978	24.35%
2017	431,296	431,313	(17)	1,759,824	24.51%
2018	406,560	406,560	-	1,586,857	25.62%
2019**	404,504	404,504	-	1,303,969	31.02%

* This schedule is presented pursuant to the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans* by reporting entities responsible for administering the pension plan to improve financial reporting by state and local governmental pension plans. Due to the statement being implemented only recently, the amount of Covered-Employee Payroll was not provided for years prior to 2014.

** Based on an estimate prepared by our department, the 2019 Actuarially Determined Contribution was improperly calculated resulting in a Contribution Deficiency of \$164,237 as further discussed in the finding and recommendation of this report.

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED PUBLIC WORKS UNION
EMPLOYEES' 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	Level dollar
Remaining amortization period	6 years
Asset valuation method	Plan assets are valued using the method described in Section 210 of Act 205, as amended, subject to a ceiling of 120% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.875%
Projected salary increases	5.00%

SOUTH WHITEHALL TOWNSHIP NON-UNIFORMED PUBLIC WORKS UNION
EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Ms. Christina T. Morgan
President, Board of Township Commissioners

Ms. Renee Bickel
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.