

COMPLIANCE AUDIT

Strasburg Township Non-Uniformed 401(a) Pension Plan

Lancaster County, Pennsylvania
For the Period
January 1, 2018 to December 31, 2022

June 2023



Commonwealth of Pennsylvania
Department of the Auditor General

Timothy L. DeFoor • Auditor General



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AUDITOR GENERAL**

Board of Township Supervisors
Strasburg Township
Lancaster County
Strasburg, PA 17579

We have conducted a compliance audit of the Strasburg Township Non-Uniformed 401(a) Pension Plan for the period January 1, 2018 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 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. State aid allocations that were deposited into the pension plan for the years ended December 31, 2018 to December 31, 2022, are presented on the Summary of Deposited State Aid and Employer Contributions.

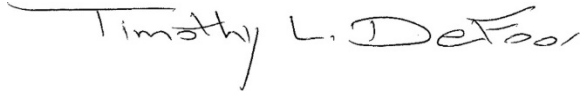
- We determined whether annual employer contributions were calculated and deposited in accordance with the plan's governing document and applicable laws and regulations by examining the municipality's calculation of the plan's annual financial requirements and minimum municipal obligation (MMO) and comparing 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, 2018 to December 31, 2022, 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 active employees employed during the audit period amounting to \$2,598, \$2,686, \$2,768, \$3,917, and 5,412 for the years 2018, 2019, 2020, 2021, and 2022, respectively, made during the 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, 2019 and January 1, 2021 actuarial valuation reports were prepared and submitted by March 31, 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 Strasburg 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 Strasburg 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 finding further discussed later in this report:

Finding – Incorrect Data On Actuarial Valuation Report

The contents of this report were discussed with officials of Strasburg 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 horizontal line above the first name.

Timothy L. DeFoor
Auditor General
May 19, 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 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 Strasburg 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 Strasburg Township Non-Uniformed 401(a) Pension Plan is a single-employer pension plan locally controlled by the provisions of Resolution No. 2017-08 and a separately executed plan agreement with the Pennsylvania State Association of Township Supervisors (PSATS). The plan was established August 7, 2017 for non-uniformed employees hired on or after August 7, 2017. The municipality is required to contribute up to six (6.0) percent of compensation to the plan to match participating members' elective deferral amounts under the deferred compensation feature of the plan. As of December 31, 2022, the plan had two active members.

STRASBURG TOWNSHIP NON-UNIFORMED 401(a) PENSION PLAN
FINDING AND RECOMMENDATION

Finding – Incorrect Data On Actuarial Valuation Report

Condition: Actuarial valuation report forms Type A, with valuation dates of January 1, 2019 and January 1, 2021, submitted to the Municipal Pension Reporting Program on March 31, 2020 and March 31, 2022, respectively, contained incorrect information. The township enacted a discretionary (401(a)) plan for its employees hired on or after August 7, 2017, effective August 7, 2017, with no fixed or defined contribution amount or percentage. The township is required to contribute up to six (6.0) percent of compensation to match participating members' elective deferral amounts under the deferred compensation feature of the plan. Such an arrangement would fall under Situation 1 for Act 205 reporting purposes. However, the actuarial reports submitted by the township identified the plan as Situation 4, providing benefits to participants through a fixed, defined contribution percentage, and specified a municipal contribution rate of three (3.0) percent of payroll as of January 1, 2019 and six (6.0) percent as of January 1, 2021. These reports were filed in addition to the actuarial valuation reports submitted for the township's defined benefit pension plan with valuation dates of January 1, 2019 and January 1, 2021 which, combined, formulated the basis for the determination of the municipality's state aid allocations for the years 2020, 2021, and 2022.

Criteria: Section 201(d) of Act 205 states:

Responsibility for preparation and filing of reports and investigations. The actuarial valuation report or experience investigation required pursuant to subsection (a) shall be prepared under the supervision and at the discretion of the chief administrative officer of the municipality, who shall be responsible for the filing of the document. The actuarial valuation report or experience investigation shall be signed by the chief administrative officer, indicating that to the extent of the understanding and knowledge of the officer, the report or investigation represents a true and accurate portrayal of the actuarial, financial, and demographic condition of the pension plan of the municipality.

Section 102 of Act 205 defines a pension plan as follows:

The various aspects of the relationship between a municipality and its employees with respect to the retirement coverage provided by a municipality to the employees.

The department does not take exception to the plan itself, merely that the information certified in the actuarial valuation report needs to be consistent with the plan's governing document and funded in accordance with Act 205.

STRASBURG TOWNSHIP NON-UNIFORMED 401(a) PENSION PLAN
FINDING AND RECOMMENDATION

Finding – (Continued)

Cause: Plan officials did not verify that the information contained in the actuarial valuation report was consistent with the plan's governing document and the township's internal control procedures were not adequate to timely identify the errors on the report prior to submission.

Effect: Because the municipality's state aid allocation is determined, in part, by the information contained in the actuarial valuation report, the submission of incorrect data may have resulted in the municipality receiving an incorrect allocation of state aid in 2020, 2021, and 2022, and may result in an incorrect allocation of state aid in 2023 if the 2021 report is not corrected.

Recommendation: We recommend that plan officials immediately contact the Municipal Pension Reporting Program to determine whether a revised 2021 actuarial valuation report may be filed. If a revised report is prepared and accepted by the Municipal Pension Reporting Program, a copy should be submitted to: Department of the Auditor General, Bureau of Municipal Pension & Liquor Control Audits, 314 Finance Building, Harrisburg, PA 17120.

We also recommend that, in the future, plan officials review and verify all information submitted to the Municipal Pension Reporting Program so that future actuarial valuation reports properly reflect the structure and status of the pension plan.

Management's Response: Municipal officials were notified of the finding on May 12, 2023, however, as of June 6, 2023, no response has been provided.

Auditor's Conclusion: Although the municipality did not provide a written response as of the issuance of this report, any response to the finding provided by officials subsequent to report issuance will be given due consideration upon receipt. Compliance with the finding will be monitored through our next audit of the plan.

STRASBURG TOWNSHIP NON-UNIFORMED 401(a) PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2018	None	\$ 2,598
2019	\$ 132	2,554
2020	None	2,768
2021	None	3,917
2022	None	5,412

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.

STRASBURG 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. Thomas Willig
Chairman, Board of Township Supervisors

Mr. Michael Weaver
Vice-Chairman, Board of Township Supervisors

Ms. Peggy Dearolf
Township Supervisor

Ms. Connie Kauffman
Chief Administrative Officer

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.