

LIMITED PROCEDURES ENGAGEMENT

Walnutport Borough Employees Pension Plan

Northampton County, Pennsylvania
For the Period
January 1, 2016 to December 31, 2019

April 2020



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

The Honorable Mayor and Borough Council
Walnutport Borough
Northampton County
Walnutport, PA 18088

We conducted a Limited Procedures Engagement (LPE) of the Walnutport Borough Employees Pension Plan for the period January 1, 2016 to December 31, 2019 to determine its compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. We also evaluated compliance with some requirements subsequent to that period when possible. The LPE was conducted pursuant to authority derived from Section 402(j) of the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.) but was not conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. 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. We believe that the evidence obtained provides a reasonable basis to support our LPE results.

Our LPE was limited to determining the following:

- 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 engagement period. State aid allocations that were deposited into the pension plan for the years ended December 31, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.
- 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, 2014 to December 31, 2019, are presented on the Summary of Deposited State Aid and Employer Contributions.

- Whether retirement benefits calculated for plan members who retired during the engagement 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 pension benefit due to retired individuals and comparing these amounts to supporting documentation evidencing amounts determined and actually paid to recipients.
- 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.

Based on the results of our procedures performed during our LPE, nothing came to our attention indicating that the Walnutport Borough Employees Pension Plan was not being 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 – Municipal Contributions Made In Excess Of Contributions Required
To Fund The Plan

Our determination to perform a LPE for this engagement period does not preclude the Department from conducting an audit in accordance with *Government Auditing Standards* of the pension plan in subsequent periods. The borough should continue to maintain documentation related to this pension plan.

The contents of this report were discussed with officials of Walnutport Borough and, where appropriate, their responses have been included in this report. We would like to thank borough officials for the cooperation extended to us during the conduct of this LPE.

April 2, 2020



EUGENE A. DEPASQUALE
Auditor General

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WALNUTPORT BOROUGH EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding - Municipal Contributions Made In Excess Of Contributions Required To Fund The Plan

Condition: The borough made contributions to the non-uniformed pension plan in excess of contributions required to fund the pension plan, as illustrated below:

	<u>2019</u>
Actual municipal pension costs	\$ 13,417
State aid allocated	<u>-</u>
Municipal contributions required to fund plan	<u>\$ 13,417</u>
Actual municipal contributions made	\$ 15,579
Municipal contributions required to fund plan	<u>(13,417)</u>
Excess municipal contributions	<u>\$ 2,162</u>

In addition, these excess contributions were allocated to an individual’s account during 2019 in excess of the plan’s governing document.

Criteria: Part III-1 (3.01) of the borough’s money purchase joinder agreement with the plan custodian indicates the following relative to employer contributions:

The employer shall make contributions to the plan, which, together with forfeitures, shall be an amount equal to 6% of each eligible participant’s compensation.

Part I-2 (1.05)(A) of the joinder agreement further states, in part:

Compensation shall include all compensation earned by the Employee and paid by the Employer reportable on Form W-2. Compensation shall specifically exclude lump sum payments of any kind

Cause: Borough officials relied on municipal contribution calculations provided by a third party plan consultant, which included lump sum payments in total compensation, used to calculate the required contribution for 2019. Additionally, the borough lacked adequate internal control procedures to ensure that employer contributions were limited to actual eligible compensation as prescribed in the plan document.

WALNUTPORT BOROUGH EMPLOYEES PENSION PLAN
FINDING AND RECOMMENDATION

Finding - (Continued)

Effect: The municipality contributed funds in excess of plan costs and allocated funds to an individual member's account in excess of the defined contribution percentage rate contained in the plan's governing document. By making excess municipal contributions, the plan member received additional benefits beyond those outlined in the plan's governing document; and the borough utilized municipal resources which could have been available for other general municipal purposes.

Recommendation: We recommend that the borough, with the assistance of its solicitor, determine whether the excess municipal contributions should be withdrawn from the member's account and reimbursed to the borough.

We also recommend that, in the future, plan officials reconcile municipal contributions made to the pension plan with the pension plan's 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.

WALNUTPORT BOROUGH EMPLOYEES PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2014	None	\$ 10,753
2015	\$ 11,763	452
2016	11,379	884
2017	12,528	676
2018	None	12,823
2019	None	15,579

WALNUTPORT BOROUGH EMPLOYEES PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

The Honorable Wayne A. Weidner
Mayor

Mr. William Turk
Council President

Ms. Annette S. Lacko
Secretary/Treasurer

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