

LIMITED PROCEDURES ENGAGEMENT

Heidelberg Township Non-Uniformed Employees' Pension Plan

Lehigh County, Pennsylvania
For the Period
January 1, 2013 to December 31, 2016

November 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Board of Township Supervisors
Heidelberg Township
Lehigh County
New Tripoli, PA 18066

We conducted a Limited Procedures Engagement (LPE) of the Heidelberg Township Non-Uniformed Employees' Pension Plan for the period January 1, 2013 to December 31, 2016 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 municipal officials took appropriate corrective action to address the finding contained in our prior audit report, by inquiring of plan officials and evaluating supporting documentation provided by officials evidencing that the suggested corrective action has been appropriately taken.
- 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, 2011 to December 31, 2016, 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, 2011 to December 31, 2016, are presented on the Summary of Deposited State Aid and Employer Contributions.
- Whether the January 1, 2011, January 1, 2013 and January 1, 2015 actuarial valuation reports were prepared and submitted to the former Public Employee Retirement Commission (PERC) by March 31, 2012, 2014 and 2016, 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 Heidelberg Township Non-Uniformed 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 findings further discussed later in this report:

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Finding No. 2 – Failure To Properly Fund Member Accounts

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 township should continue to maintain documentation related to this pension plan.

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

November 6, 2017



EUGENE A. DEPASQUALE
Auditor General

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HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
STATUS OF PRIOR FINDING

Compliance With Prior Audit Recommendation

Heidelberg Township has complied with the prior audit recommendation concerning the following:

· Receipt Of State Aid In Excess Of Entitlement

Township officials reimbursed \$2,058 to the Commonwealth for the excess state aid received in 2012.

HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The township understated payroll by \$13,177 on the Certification Form AG 385 filed in 2014. The data contained on this certification form is based on prior calendar year information.

Criteria: Pursuant to the instructions that accompany Certification Form AG 385, the total payroll eligible to be certified should be Internal Revenue Service Form W-2 earnings pertaining to full-time positions.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on this certification form is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the township's state aid allocation was based on pension costs, the township received an underpayment of state aid in the amount of \$1,186 as identified below:

<u>Normal Cost</u>	<u>Payroll Understated</u>	<u>State Aid Underpayment</u>
9.0%	\$ 13,177	\$ 1,186

Although the township will be reimbursed for the underpayment of state aid due to the township's certification error, the full amount of the 2014 state aid allocation was not available to be deposited timely and therefore resulted in the township having to make additional municipal contributions in order to meet the plan's funding obligation.

Recommendation: We recommend that in the future, plan officials establish adequate internal control procedures, such as having at least 2 people review the data certified, to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

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

Auditor's Conclusion: Compliance will be evaluated during our next engagement.

HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – Failure To Properly Fund Member Accounts

Condition: The township did not fully fund the accounts of 2 plan members in 2015 and 4 plan members in 2016 in the amounts of \$763 and \$4,066, respectively, as illustrated below:

2015 Employees	Required Contributions	Actual Contributions	Contributions Due
1	\$ 5,182	\$ 4,675	\$ 507
2	3,921	3,665	256
Total			<u>\$ 763</u>

2016 Employees	Required Contributions	Actual Contributions	Contributions Due
1	\$ 5,498	\$ 5,304	\$ 194
2	4,389	4,264	125
3	3,693	3,640	53
4	3,694	-	3,694
Total			<u>\$ 4,066</u>

Criteria: In 2015, the plan's governing document, Resolution No. 2015-9, established the municipal contribution rate at 9 percent of gross compensation. For 2016, Resolution No. 2016-11, established the municipal contribution rate at 10 percent of gross compensation, which includes overtime pay.

Cause: Township officials were unaware of their obligation to make a contribution for a new full-time employee in 2016. In addition, township officials supplied incorrect compensation to their plan consultant for members' payroll in 2015 and 2016.

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

Recommendation: We recommend that the township deposit the contributions due to the members' accounts for the years 2015 and 2016, with interest. A copy of the interest calculations should be maintained by the township for examination during our next engagement.

HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

We also recommend that in the future, township officials properly fund the accounts of all eligible plan members.

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

Auditor's Conclusion: Compliance will be evaluated during our engagement.

HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
SUMMARY OF DEPOSITED STATE AID AND EMPLOYER CONTRIBUTIONS

Year Ended December 31	State Aid	Employer Contributions
2011	\$ 21,642	\$ 2,692
2012	21,457	None
2013	17,649	125
2014	17,150	1,584
2015	15,683	2,310
2016	16,546	4,031

HEIDELBERG TOWNSHIP NON-UNIFORMED EMPLOYEES' PENSION PLAN
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom W. Wolf
Governor
Commonwealth of Pennsylvania

Mr. Steve Bachman
Chairman, Board of Township Supervisors

Ms. Janice M. Meyers
Township Administrator

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.